

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Gratiot County	County Gratiot
Fiscal Year End 9/30/2006	Opinion Date 12/8/2006	Date Audit Report Submitted to State 3/23/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

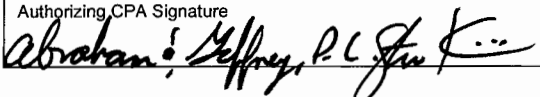
YES ☒ NO ☐

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	
		License Number 1101022020	

**Gratiot County, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2006**

Gratiot County, Michigan

September 30, 2006

BOARD OF COMMISSIONERS

Richard Gay	Chairperson
Greg Carlson	Vice Chairperson
Trenton Wilhelm	Commissioner
Jan Bunting	Commissioner
Roger Cook	Commissioner
Linton Chapin	Commissioner
Roland Merignac	Commissioner

ADMINISTRATION AND OTHER ELECTED OFFICIALS

Brian Smith	Administrator
Mary Sullivan	Treasurer
Carol Vernon	Clerk
Janet Davis	Register of Deeds
Brian Denman	Drain Commissioner
Keith Kushion	Prosecuting Attorney
Robert Beracy	Sheriff

Gratiot County, Michigan

TABLE OF CONTENTS

September 30, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xvii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Statement of Net Assets - Fiduciary Funds	12
Combining Statement of Net Assets - Component Unit Funds	13-14
Statement of Activities - Component Unit Funds	15
Notes to Financial Statements	16-42
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Budgetary Comparison Schedule - Revenues and Other Financing Sources	43-45
Budgetary Comparison Schedule - Expenditures and Other Financing Uses by Activity	46-48
Budgetary Comparison Schedule - Revenue Sharing Reserve Fund	49
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	50-59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	60-69
Combining Statement of Net Assets - Nonmajor Enterprise Funds	70
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	71
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	72
Combining Statement of Net Assets - Internal Service Funds	73
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	74
Combining Statement of Cash Flows - Internal Service Funds	75
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	76

Gratiot County, Michigan

TABLE OF CONTENTS - CONTINUED

September 30, 2006

Page

COMPONENT UNIT FUNDS

DRAINAGE DISTRICTS

Combining Balance Sheet	77-78
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	80-81
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	82

BOARD OF PUBLIC WORKS

Combining Balance Sheet	83
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	85
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	86

CENTRAL DISPATCH AUTHORITY

Combining Balance Sheet	87
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	88
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	89

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	90
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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of and for the year ended September 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gratiot County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gratiot County Road Commission, which represents 80% of both the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audit of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006 on our consideration of Gratiot County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a discussion and analysis of Gratiot County's (the County's) financial performance and position, providing an overview of the activities for the fiscal year ending September 30, 2006. This analysis should be read in conjunction with the *Independent Auditors Report*, beginning on page i of this report, and with the County's financial statements, which follow this section. Certain limited financial information is presented with respect to the Gratiot County Road Commission in the Management Discussion and Analysis. The reader should refer to the Road Commission's separately issued financial statements for more detailed information.

**FINANCIAL HIGHLIGHTS**

**Government-wide:**

- The assets of the County exceeded its liabilities at the close of fiscal year 2006 by \$11,452,078 (net assets). Of this amount, \$6,472,433 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The governments total net assets increased by \$128,824 (excluding component units) from the prior fiscal year.
- As the close of the fiscal year, the County's governmental activities funds reported combined net assets of \$7,125,807, an increase of \$858,018 from the prior fiscal year.
- At the close of the fiscal year, the County's business-type activities funds reported combined net assets of \$4,326,271, a decrease of \$729,194 from the prior fiscal year.
- At the close of the fiscal year, the County's component units reported combined net assets of \$32,713,873, an increase of \$71,106.

**Fund Level:**

- At the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$3,641,403, an increase of \$1,732,295 in comparison with the prior year. Approximately 79 percent of this amount, \$2,866,927, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- The General Fund realized \$471,453 more in revenues and other financing sources than anticipated for the fiscal year. Also, General Fund operations also expended \$151,370 less than appropriated.

**Capital and Long-term Debt Activities:**

- The primary government issued \$1,605,000 in new bonds for the fiscal year.
- The total long-term debt for the primary government was \$5,467,834 with a net addition of \$1,330,050 from the prior year.
- The Drainage Districts issued \$424,300 in new long-term notes.
- The total long-term debt for the component units (Drainage Districts and Board of Public Works only) was \$1,770,921 with a net decrease of \$274,674 from the prior year.
- The long-term debt for the Road Commission was \$312,223.
- The County remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government was \$355,182 (including depreciation) and included such purchases as the Central Dispatch Facility and the radio system, voice logging system, and security system for the facility, tractors for the parks and building and grounds departments and radios for emergency management.



MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the County consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis*, and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and other *Supplementary Information* including combining financial statements for all nonmajor governmental funds and proprietary funds.

**Government-wide Financial Statements (Reporting the County as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the County as a whole, and about its activities. Their purpose is to assist in answering the question, is the County, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all the County's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the County's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the County's net assets changed during fiscal year 2006. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the County's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County's general government departments, law enforcement, the courts, the Board of Commissioner operations, and other countywide elected official operations are reported under these activities. This also includes the special revenue funds such as the Commission on Aging and Friend of the Court Funds.
- **Business-type Activities** - These activities operate like private businesses. The County charges fees to recover the cost of the services provided. The Gratiot County Jail Commissary Fund and the Delinquent Tax Fund are examples of these activities.
- **Discretely Presented Component Units** - Discretely Presented Component units are legally separate organizations for which the Board of Commissioners appoints a majority of the organization's policy board and there is a degree of financial accountability to the County. Four organizations are included as component units: the Department of Public Works, the Road Commission for Gratiot County, the Central Dispatch Authority, and the Drainage Districts.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as reserves for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Bond proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the County's general capital assets such as buildings, land, cars, computer equipment etc. These values are not included in the fund financial statements.

**Fund Financial Statements (Reporting the County's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the County's significant (major) funds, and aggregated nonmajor funds. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as the Commission on Aging and Child Care Fund; other funds are required by bond or grant agreements, such as the Friend of the Court Fund. Funds are also utilized to track specific operations; these include the internal services funds (e.g., Fringe Benefit) as well as enterprise funds such as the Jail Commissary and Delinquent Tax.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for Gratiot County include the General Fund, the Revenue Sharing Reserve, the Construction Fund, and the Delinquent Tax Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The County includes detailed information on its nonmajor funds in other supplementary sections of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The County's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the County's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the County's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the County charges customers (whether outside the County structure or a County department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Soil Erosion Inspection Fund. *Internal Service funds* report activities that provide supplies or service to the County's other operations, such as the Fringe Benefit Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The County acts as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The County's fiduciary activities are reported in separate statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 12. These funds, which include trust and agency funds and the Library (Penal Fines) Fund, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the County to fund its operations.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 16 of this report.

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds. These funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As previously stated, Gratiot County's combined net assets were \$11,452,078 at the end of this fiscal year's operations. The net assets of the governmental activities were \$7,125,807; the business type activities were \$4,326,271.

**Gratiot County Net Assets FY ending 2005 and ending FY 2006**

	<b><u>Governmental Activities</u></b>		<b><u>Business Type Activities</u></b>		<b><u>Total Primary Government</u></b>	
	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
Current and Other Assets	\$ 2,618,138	\$ 4,370,165	\$ 5,128,399	\$ 4,403,300	\$ 7,746,537	\$ 8,773,465
Capital Assets	<u>8,421,043</u>	<u>8,776,225</u>	<u>-</u>	<u>-</u>	<u>8,421,043</u>	<u>8,776,225</u>
<b>Total Assets</b>	<b><u>\$ 11,039,181</u></b>	<b><u>\$13,146,390</u></b>	<b><u>\$ 5,128,399</u></b>	<b><u>\$ 4,403,300</u></b>	<b><u>\$16,167,580</u></b>	<b><u>\$ 17,549,690</u></b>
Current Liabilities	\$ 899,497	\$ 928,882	\$ 72,934	\$ 77,029	\$ 972,431	\$ 1,005,911
Other Liabilities	<u>3,871,895</u>	<u>5,091,701</u>	<u>-</u>	<u>-</u>	<u>3,871,895</u>	<u>5,091,701</u>
<b>Total Liabilities</b>	<b><u>\$ 4,771,392</u></b>	<b><u>\$ 6,020,583</u></b>	<b><u>\$ 72,934</u></b>	<b><u>\$ 77,029</u></b>	<b><u>\$ 4,844,326</u></b>	<b><u>\$ 6,097,612</u></b>
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 4,899,327	\$ 3,915,398	\$ -	\$ -	\$ 4,899,327	\$ 3,915,398
Restricted	557,373	1,064,247	-	-	557,373	1,064,247
Unrestricted	<u>811,089</u>	<u>2,146,162</u>	<u>5,055,465</u>	<u>4,326,271</u>	<u>5,866,554</u>	<u>6,472,433</u>
<b>Total Net Assets</b>	<b><u>\$ 6,267,789</u></b>	<b><u>\$ 7,125,807</u></b>	<b><u>\$ 5,055,465</u></b>	<b><u>\$ 4,326,271</u></b>	<b><u>\$11,323,254</u></b>	<b><u>\$ 11,452,078</u></b>

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the County's net assets changed during the fiscal year:

**Gratiot County's Changes in Net Assets for the Fiscal Year Ending September 30, 2006**

	<b><u>Governmental Activities</u></b>		<b><u>Business Type Activities</u></b>		<b><u>Total Primary Government</u></b>	
	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
<b>Revenues</b>						
Charges for Services	\$ 2,907,309	\$ 3,169,527	\$ 245,374	\$ 317,281	\$ 3,152,683	\$ 3,486,808
Grants & Contributions	2,822,968	2,773,059	-	-	2,822,968	2,773,059
General Revenues						
Property Taxes	6,462,612	6,718,065	-	-	6,462,612	6,718,065
Investment Earnings	29,340	50,103	89,657	136,219	118,997	186,322
Miscellaneous	61,651	42,521	47,288	30,452	108,939	72,973
<b>Total Revenues</b>	<b>12,283,880</b>	<b>12,753,275</b>	<b>382,319</b>	<b>483,952</b>	<b>12,666,199</b>	<b>13,237,227</b>
<b>Expenses</b>						
General Government	5,125,932	5,197,647	-	-	5,125,932	5,197,647
Public Safety	3,387,739	3,516,854	-	-	3,387,739	3,516,854
Public Works	10,476	653	-	-	10,476	653
Health and Welfare	3,080,622	3,588,035	-	-	3,080,622	3,588,035
Community and Economic Dev.	352,309	156,761	-	-	352,309	156,761
Recreation & Cultural	140,311	319,082	-	-	140,311	319,082
Interest on long- term debt	179,238	221,225	-	-	179,238	221,225
Delinquent Tax	-	-	3,936	50	3,936	50
Other	-	-	95,471	108,096	95,471	108,096
<b>Total Expenses</b>	<b>12,276,627</b>	<b>13,000,257</b>	<b>99,407</b>	<b>108,146</b>	<b>12,376,034</b>	<b>13,108,403</b>
Excess (deficiency)	7,253	( 246,982 )	282,912	375,806	290,165	128,824
Transfers	575,000	1,105,000	( 575,000 )	( 1,105,000 )	-	-
<b>Increase (decrease) in Net Assets</b>	<b>582,253</b>	<b>858,018</b>	<b>( 292,088 )</b>	<b>( 729,194 )</b>	<b>290,165</b>	<b>128,824</b>
Restated Net Assets - Beginning	5,685,536	6,267,789	5,347,553	5,055,465	11,033,089	11,323,254
<b>Net Assets - Ending</b>	<b>\$ 6,267,789</b>	<b>\$ 7,125,807</b>	<b>\$ 5,055,465</b>	<b>\$ 4,326,271</b>	<b>\$ 11,323,254</b>	<b>\$ 11,452,078</b>

**Governmental Activities:**

The result of fiscal year 2006 governmental activity was an increase of \$858,018 in net assets, to \$7,125,807. Of the total governmental activities' net assets, \$3,915,398 is invested in capital assets less related debt, \$1,064,247 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the County government. The balance of \$2,146,162 is listed as unrestricted, having no legal commitment.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

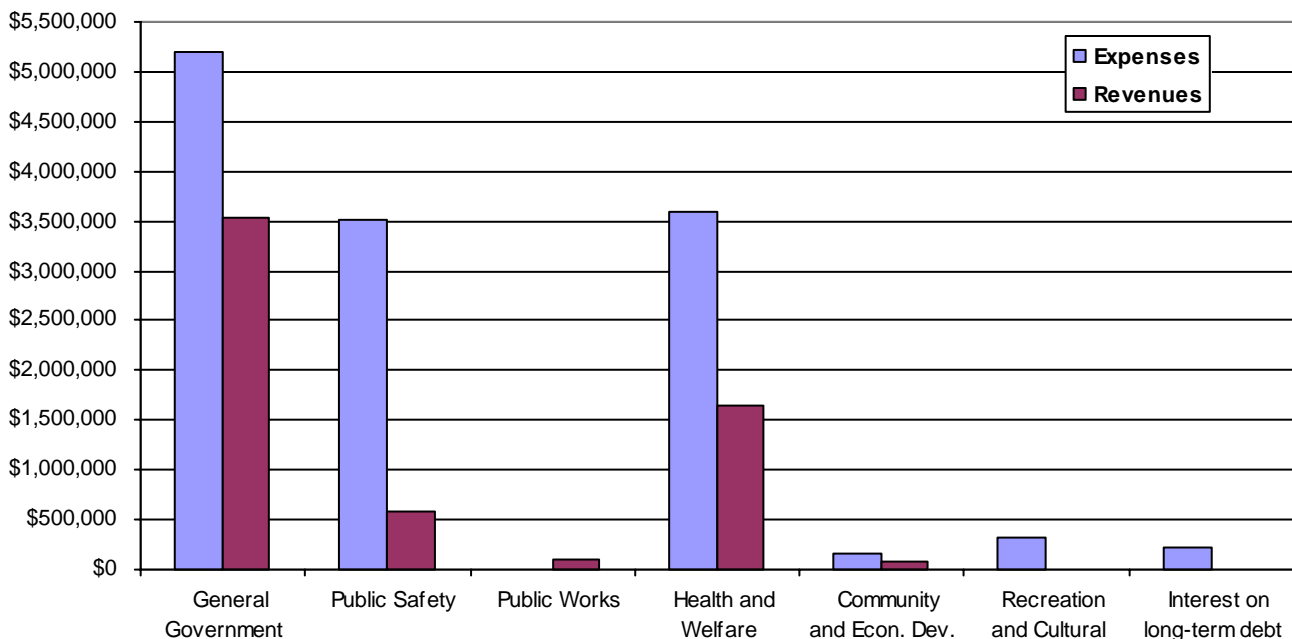
**Revenues:**

The three largest revenue categories were property taxes at 53% (no percentage change from the prior year), charges for services at 25% (increase of 1% from the prior year) and grants and contributions at 22% (decrease of 1% from the prior year). The County levied four property tax millages for the 2006 tax year, one being for general government operations at 5.5207 mills which is not assigned to any particular activity, the senior citizens millage at .6443 mills to finance the Commission on Aging and the parks millage at .3500 mills to finance the Parks Department. Charges for services, which reimburse the County for specific activities, are the second largest source of governmental activity revenue. Examples include District Court fees and services, Clerk's Office filing fees, Register of Deeds filing fees, and inmate telephone charges.

**Expenses:**

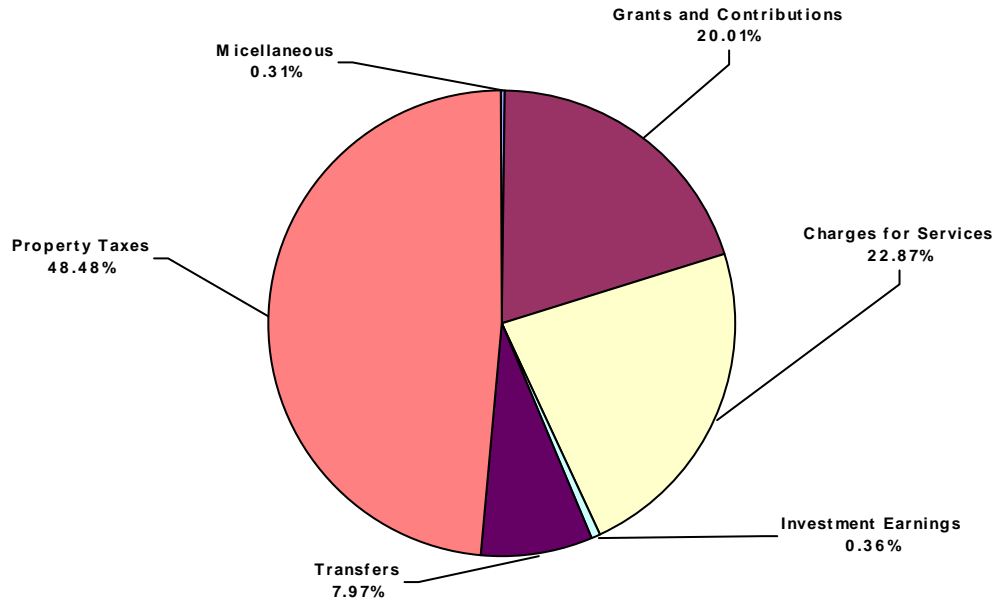
General government is the largest governmental activity, expending over \$5.20 million (an increase of \$71,715 or 1.4 percent) of the \$13 million total and includes offices such as District Court, Juvenile Court, Prosecuting Attorney, Board of Commissioners, Treasurer, Clerk, Register of Deeds, Elections and MSU Extension. Health and Welfare is the second largest area, expending \$3.59 million (an increase of \$507,413 or 16.5 percent), and includes the Medical Examiner, District Health, Mental Health, Veterans Affairs and Substance Abuse. Public Safety is the third largest governmental activity, expending over \$3.52 million (an increase of \$129,115 or 3.8 percent). It includes the Sheriff, Animal Control, Emergency Services, and Jail operations.

**Expenses and Program Revenues - Governmental Activities**



County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

**Revenues By Source - Governmental Activities**

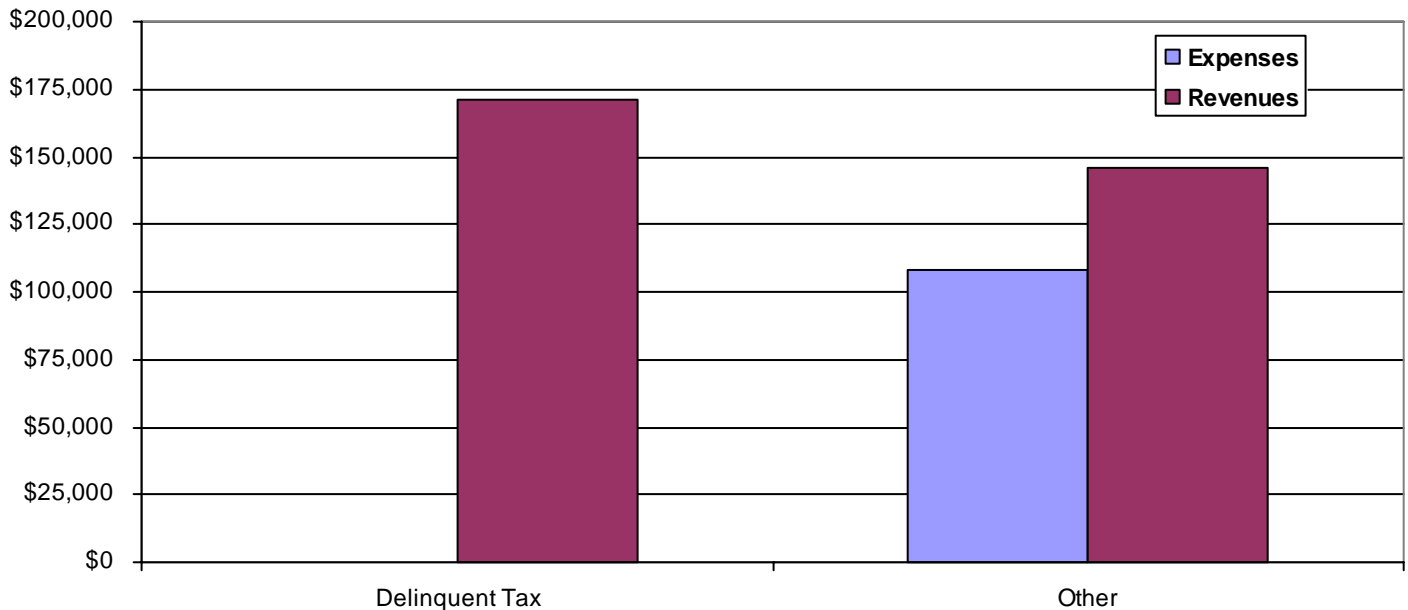


**Business-type Activities:**

Net assets in business-type activities decreased by \$729,194 during Fiscal Year 2006. The vast majority of this decrease was a result of the planned operating transfer of \$1,105,000 from the Delinquent Tax Fund surplus to the General Fund. Without this transfer, net assets would have increased by \$375,806.

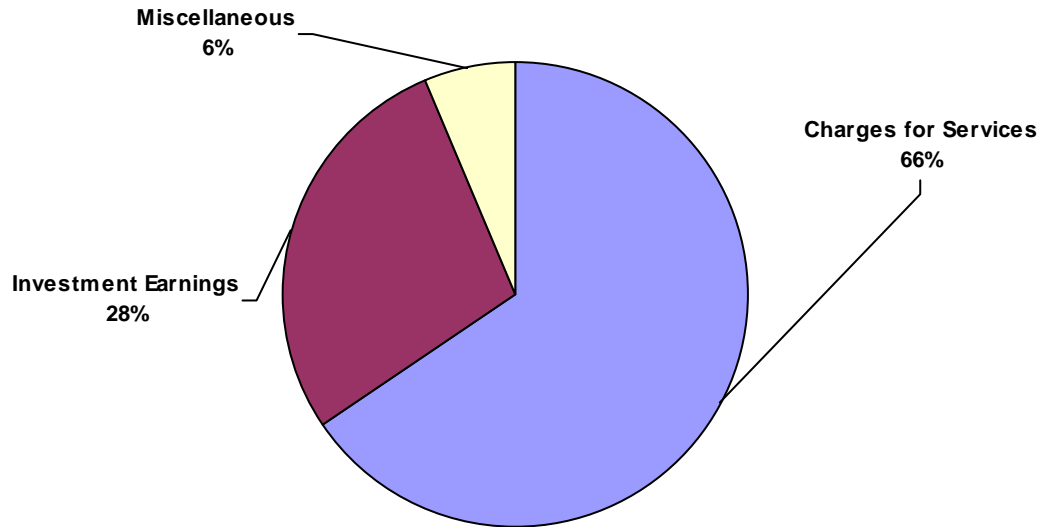
Of the total \$4.3 million of net assets in the business type activities, \$4.3 million is reported as unrestricted. However, it is important to note that although reported as unrestricted, many of these assets are anticipated to be designated through Board of Commissioners action to be spent on General Fund activities and self-funding of delinquent tax payments in future years.

**Expenses and Program Revenues - Business-type Activities**



County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

**Revenues By Source - Business-type Activities**



**FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR AND NONMAJOR GOVERNMENTAL FUNDS**

As the County completed fiscal year 2006, its governmental funds reported *combined* fund balances of \$3,635,903, an increase of \$1,726,795. The net changes are summarized in the following chart:

	General Fund	Revenue Sharing Reserve	Construction Fund	Nonmajor Governmental Funds
<b>Fund Balance 9/30/05</b>	\$ 863,300	\$ 454,574	\$( 261,844 )	\$ 853,078
<b>Fund Balance 9/30/06</b>	\$1,164,204	\$ 1,042,941	\$ 569,421	\$ 864,837
<b>Net Change</b>	\$ 300,904	\$ 588,367	\$ 831,265	\$ 11,759

The General Fund balance increased by \$300,904; this is mainly due to an increase in the amount transferred in to the General Fund from the Delinquent Tax Revolving Fund. The Revenue Sharing Reserve Fund was created by Public Act 357 of 2004, which shifts the General Fund county property tax collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and sets aside that amount into this fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment. The Construction Fund balance increased by \$831,265; this is due to bond proceeds of \$1,605,000 and \$782,293 in capital outlay expenditures on the Central Dispatch Facility. The combined other nonmajor funds increased by \$11,759, which was an immaterial change.

**General Fund:**

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement or Board policy, all County revenues and expenditures are recorded in the General Fund. As of September 30, 2006, the General Fund reported a fund balance of \$1,164,204. The General Fund balance increased by \$300,904; this is mainly due to an increase in the amount transferred in to the General Fund from the Delinquent Tax Revolving Fund. Of the total fund balance, all but \$431,690 is reserved, designated or earmarked for specific purposes.



County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

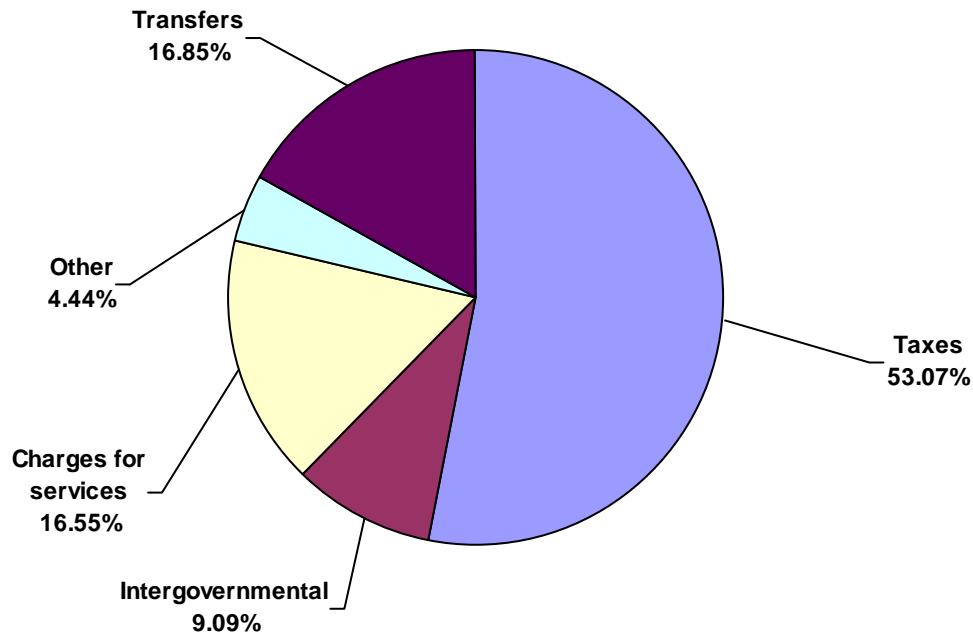
The General Fund fiscal year 2006 revenues exceeded fiscal year 2006 expenditures by \$1,255,955; however, the General Fund also supports the operations of other funds including the required transfer to the Revenue Sharing Reserve Fund, Child Care Fund, Secondary Road Patrol, COPS Grant Fund, Jail/Health Building Debt Fund, Courthouse Renovation Debt Fund, and the Capital Improvement Fund. The County transfers in some of the Delinquent Tax Fund surplus and the allowed amount from the Revenue Sharing Reserve Fund to offset these transfers out.

**General Fund Budgetary Highlights:**

Gratiot County's budget is a dynamic document. Although adopted in September (prior to the start of the next fiscal year), the budget is frequently amended during the course of the fiscal year to reflect changing operational demands.

The County's amended revenue budget was increased by \$141,565 (1.3% above the original budget) during fiscal year 2006. Actual General Fund revenue and other financing sources totaled \$11,179,501, which was \$471,453 above the final amended budget. Variations in individual revenue accounts continue to reflect the slow recovery for the state and local economy. Significantly, tax revenue increased by \$312,480 or 5.6% from the prior year. Intergovernmental revenues decreased by \$249,101 from 2005 due to decreased Homeland Security Grant Funds. Transfers in also increased significantly from the prior year due to an increase in the transfer in to \$1,105,000 from the Delinquent Tax Revolving Fund.

**Revenues By Source - General Fund**



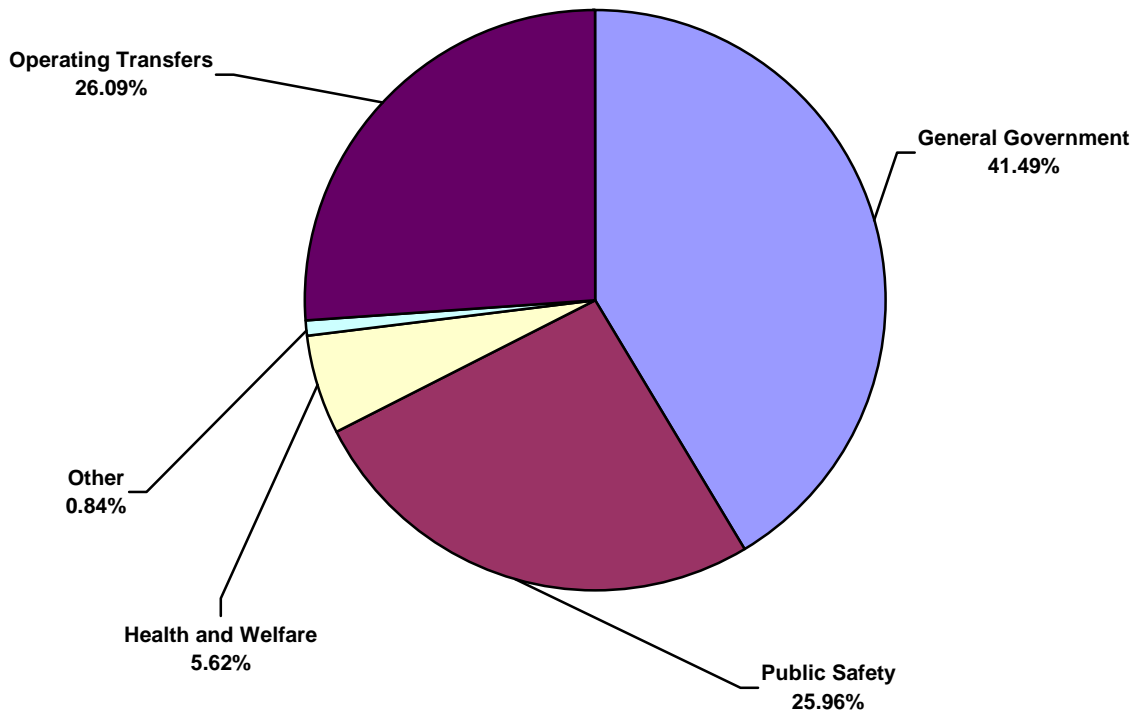
County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006

The County's expenditure budget was increased by \$114,600 (1% above the original budget) during fiscal year 2006.

Actual County expenditures for fiscal year 2006 were \$151,370 or 1.4% below the amended budget. This is due to several reasons including:

- \$71,838 less than planned for general government operations due to the fiscal discipline of the various county managers and elected officials.
- \$76,668 less than planned for public safety operations due to some expense lines being over budgeted for the year.

**Expenditures By Program Area - General Fund**



County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

**Revenue Sharing Reserve Fund:**

Until 2005, the County received revenue sharing payments from the State of Michigan under the State Constitution and the State Revenue Sharing Act of 1971, as amended (the "Revenue Sharing Act"). In anticipation of a continued budget deficit, in September 2004, Governor Granholm signed into law Act 356, Public Acts of Michigan, 2004 ("Act 356"), an amendment to the Revenue Sharing Act, and Act 357, Public Acts of Michigan, 2004 ("Act 357") an amendment to the General Property Tax Act. Act 356 and Act 357 accomplish the temporary elimination of approximately \$182.1 million in statutory revenue sharing payments to counties by creating a reserve fund paid for by the permanent advancement of the counties' property tax levy from December to July each year, beginning July 2005. Under Act 356 and Act 357, the additional county revenue generated from the accelerated levy will be placed in a reserve fund that each county would draw against in lieu of their annual revenue sharing payments. State revenue sharing payments to a county would resume in the first year in which a county's property tax revenue reserve is less than the amount the county would have otherwise received in state revenue sharing payments. Gratiot County transferred \$1,367,058 to this fund in 2006 and transferred back \$778,691 to the General Fund. The balance that remains in the Revenue Sharing Reserve Fund will be used in future years.

**Construction Fund**

In 2006, the County issued two bonds for the construction of the Central Dispatch Facility. The proceeds of the two bond issuances totaling \$1,605,000 are recorded in the construction fund to finance capital outlay projects. In 2006, \$782,293 was spent of these bond proceeds on capital outlay related items.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of Fiscal Year 2006 the County had invested \$8,776,225 and \$4,903,240 for the component units (excluding the Road Commission), net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$3,783,230 for the primary government. Depreciation charges and adjustments for the fiscal year totaled \$464,923 for the primary government and \$160,706 for the component units (excluding the Road Commission).

	<u>Governmental Activities</u>		<u>Component Unit Drains</u>		<u>Component Unit Central Dispatch</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	\$ 519,157	\$ 645,109	\$ -	\$ -	\$ -	\$ -	\$ 519,157	\$ 645,109
Const. in progress	253,870	-	203,927	184,044	-	-	457,797	184,044
Buildings, net	6,914,389	7,150,925	-	-	-	-	6,914,389	7,150,925
Equipment, net	514,276	870,903	41,019	32,229	-	-	555,295	903,132
Vehicles, net	219,351	109,288	26,155	18,511	-	-	245,506	127,799
Drains, net	-	-	4,360,325	4,668,456	-	-	4,360,325	4,668,456
Capital assets, net	<u>\$8,421,043</u>	<u>\$ 8,776,225</u>	<u>\$4,631,426</u>	<u>\$4,903,240</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$13,052,469</u>	<u>\$13,679,465</u>

Long-term Debt - As of September 30, 2006, the County had \$5,467,834 in bonds, notes and accumulated vacation and sick time outstanding for the primary government. Of this amount, \$4,860,827 is bonds with unlimited or limited taxing authority. This level of net bond obligation is \$1,339,111 more than the obligation recorded as of September 30, 2005. In addition, the County uses its full faith and credit (as a secondary obligator), to back the Board of Public Works and Drainage District component unit debt. The Drain Commission administers debt for various local drainage districts and water and sewer systems for local municipalities in Gratiot County. All drain debt is payable out of assessments against the drainage districts or by contractual agreements with local units of government.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

**Outstanding Debt as of September 30, 2006:**

	<b><u>Oct. 1, 2005</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Sept. 30, 2006</u></b>
<b>Primary Government</b>				
Governmental Activities				
Direct County Obligations	\$ 3,521,716	\$ 1,605,000	\$ 265,889	\$ 4,860,827
Accumulated Comp. Absences	<u>616,068</u>	<u>-</u>	<u>9,061</u>	<u>607,007</u>
<b>Total Primary Government</b>	4,137,784	1,605,000	274,950	5,467,834
<b>Component Units</b>				
Road Commission				
Accumulated Comp. Absences	330,023	-	17,800	312,223
Board of Public Works				
Water and Sewer Bonds	765,000	-	320,000	445,000
Drainage Districts				
Drain Bonds and Notes	<u>1,280,595</u>	<u>424,300</u>	<u>378,974</u>	<u>1,325,921</u>
<b>Total Component Units</b>	<u>2,375,618</u>	<u>424,300</u>	<u>716,774</u>	<u>2,083,144</u>
<b>Total Reporting Entity</b>	<b><u>\$ 6,513,402</u></b>	<b><u>\$ 2,029,300</u></b>	<b><u>\$ 991,724</u></b>	<b><u>\$ 7,550,978</u></b>
<b>Debt Limit (10% of SEV)</b>				<b>\$ 113,260,000</b>
<b>Available Statutory Debt Limit</b>				<b>\$ 105,709,022</b>

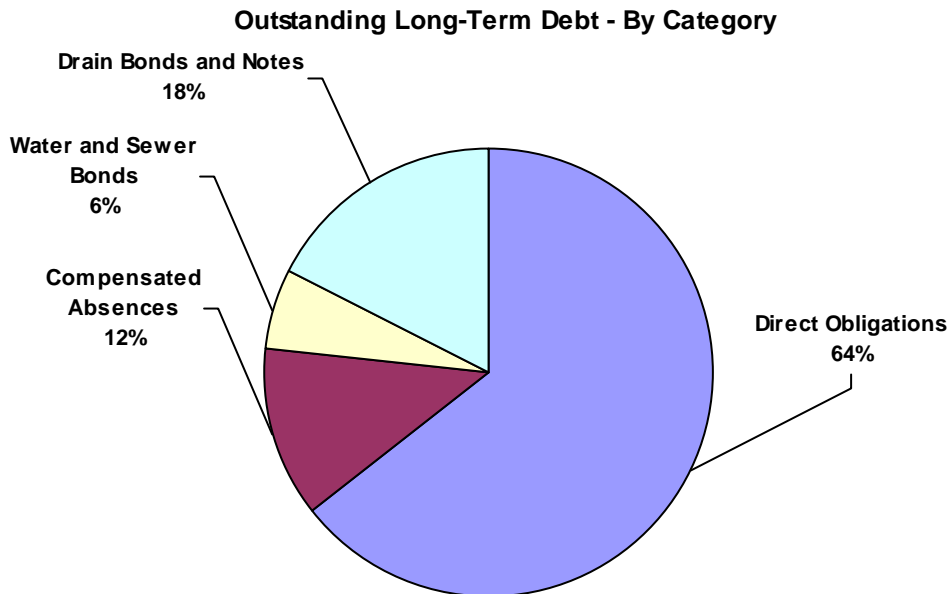
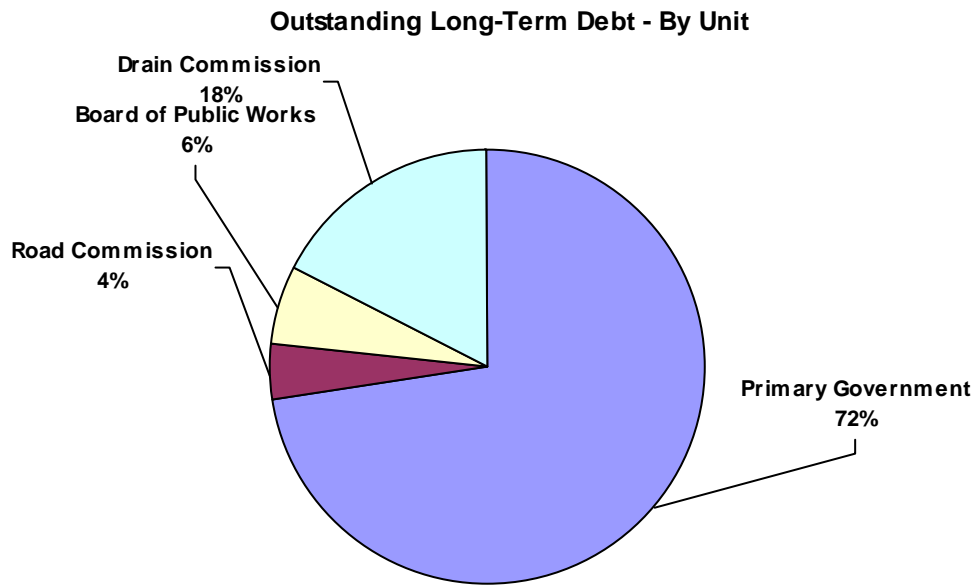
Activity for the Component Units and Drain Funds during fiscal year 2006 included the issuance of \$424,300 in drainage district bonds and notes.

A more detailed discussion of the County's long-term debt obligations is presented in Note G to the financial statements.

**Limitations on Debt:**

State statute limits the County's debt obligations to 10 percent of the current state equalized value (SEV). The County's SEV as of September 30, 2006 was \$1.132 billion; therefore the County's debt limitation was \$113 million. The County remains well below its legal debt limit by over \$105 million.

County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2006



**GRATIOT COUNTY GOVERNMENT ECONOMIC OUTLOOK:**

- The total number of people employed in Gratiot County for 2006 was 18,819 versus 19,150 in 2005, reflecting a decrease of 331 people.
- The unemployment rate for Gratiot County for 2006 was 8.3 percent, which increased from 7.9 percent in 2005.
- The State unemployment rate for 2006 was 6.8 percent, an increase from 6.4 percent in 2005.
- Inflationary trends in the region compare favorably to national indices.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

- The inflation rate multiplier for use in the 2006 capped value formula under Proposal A for determining property tax increases was 1.033 percent. The inflation rate multiplier for 2007 is 1.037 percent. The following table shows the history since proposal A was passed:

1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033
2007	1.037

- Health insurance and pension costs continue to increase following state and national trends.
- State Shared Revenue remains a concern as the State may not restore the payments due to long term economic cycles.

The County considered all of these factors in preparing the County's budget for the 2007 fiscal year.

In order to meet these challenges, the County continues to utilize a very detailed budget process to identify issues and plan accordingly. The County will also begin utilizing five year budget projections to identify long-term financial issues and potential solutions.

**CONTACTING THE COUNTY**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Gratiot County Treasurer's Office at (989) 875-5220 or Gratiot County Administration at (989) 875-5261 or via email, bsmith@co.gratiot.mi.us.

## **BASIC FINANCIAL STATEMENTS**

Gratiot County, Michigan

STATEMENT OF NET ASSETS

September 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,295,521	\$ 991,719	\$ 3,287,240	\$ 2,168,992
Investments	30,000	1,677,442	1,707,442	-
Receivables	1,363,862	866,839	2,230,701	1,768,950
Internal balances	(22,000)	22,000	-0-	-
Inventories	13,363	-	13,363	293,425
Prepays	361,891	-	361,891	86,851
Current portion of lease receivable	-	-	-0-	49,826
Total current assets	4,042,637	3,558,000	7,600,637	4,368,044
Noncurrent assets				
Restricted investments	35,000	-	35,000	-
Investments	-	845,300	845,300	-
Lease receivable	-	-	-0-	405,000
Advance to other governmental unit	292,528	-	292,528	-
Capital assets not being depreciated	645,109	-	645,109	728,753
Capital assets, net of accumulated depreciation	8,131,116	-	8,131,116	30,197,065
Total noncurrent assets	9,103,753	845,300	9,949,053	31,330,818
TOTAL ASSETS	13,146,390	4,403,300	17,549,690	35,698,862
LIABILITIES				
Current liabilities				
Accounts payable	227,254	75,395	302,649	121,835
Accrued liabilities	193,205	1,568	194,773	49,152
Accrued interest payable	94,265	-	94,265	30,482
Due to other governmental units	38,025	66	38,091	209,563
Current portion of long-term debt	376,133	-	376,133	449,326
Total current liabilities	928,882	77,029	1,005,911	860,358
Noncurrent liabilities				
Advance from other governmental unit	-	-	-0-	292,528
Advance from State	-	-	-0-	198,285
Compensated absences	607,007	-	607,007	312,223
Noncurrent portion of long-term debt	4,484,694	-	4,484,694	1,321,595
Total noncurrent liabilities	5,091,701	-0-	5,091,701	2,124,631
TOTAL LIABILITIES	6,020,583	77,029	6,097,612	2,984,989
NET ASSETS				
Invested in capital assets, net of related debt	3,915,398	-	3,915,398	29,599,897
Restricted for				
Public safety	69,854	-	69,854	-
Capital improvement	587,270	-	587,270	-
Other purposes	407,123	-	407,123	1,611,675
Unrestricted	2,146,162	4,326,271	6,472,433	1,502,301
TOTAL NET ASSETS	\$ 7,125,807	\$ 4,326,271	\$ 11,452,078	\$ 32,713,873

See accompanying notes to financial statements.



Gratiot County, Michigan

STATEMENT OF ACTIVITIES

Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 5,197,647	\$ 2,404,307	\$ 1,098,334	\$ 22,000	\$ (1,673,006)	\$ -	\$ (1,673,006)	\$ -
Public safety	3,516,854	268,700	294,882	21,557	(2,931,715)	-	(2,931,715)	-
Public works	653	-	-	102,375	101,722	-	101,722	-
Health and welfare	3,588,035	474,948	1,168,759	-	(1,944,328)	-	(1,944,328)	-
Community and economic development	156,761	21,572	62,852	-	(72,337)	-	(72,337)	-
Recreation and cultural	319,082	-	2,300	-	(316,782)	-	(316,782)	-
Interest on long-term debt	221,225	-	-	-	(221,225)	-	(221,225)	-
Total governmental activities	13,000,257	3,169,527	2,627,127	145,932	(7,057,671)	-0-	(7,057,671)	-0-
Business-type activities								
Delinquent tax	50	171,215	-	-	-	171,165	171,165	-
Other	108,096	146,066	-	-	-	37,970	37,970	-
Total business-type activities	108,146	317,281	-0-	-0-	-0-	209,135	209,135	-0-
Total primary government	\$ 13,108,403	\$ 3,486,808	\$ 2,627,127	\$ 145,932	(7,057,671)	209,135	(6,848,536)	-0-
Component units								
Drainage Districts	\$ 659,169	\$ 13,650	\$ -	\$ 936,284	-	-	-0-	290,765
Board of Public Works	35,241	-	-	27,415	-	-	-0-	(7,826)
Central Dispatch	757,144	713,310	541	-	-	-	-0-	(43,293)
Road Commission	6,918,340	862,449	4,349,010	1,417,861	-	-	-0-	(289,020)
Total component units	\$ 8,369,894	\$ 1,589,409	\$ 4,349,551	\$ 2,381,560	-0-	-0-	-0-	(49,374)
		General revenues						
		Property taxes			6,718,065	-	6,718,065	-
		Investment earnings			50,103	136,219	186,322	90,543
		Miscellaneous			42,521	30,452	72,973	29,937
		Transfers			1,105,000	(1,105,000)	-0-	-
		Total general revenues and transfers			7,915,689	(938,329)	6,977,360	120,480
		Change in net assets			858,018	(729,194)	128,824	71,106
		Restated net assets, beginning of the year			6,267,789	5,055,465	11,323,254	32,642,767
		Net assets, end of the year			\$ 7,125,807	\$ 4,326,271	\$ 11,452,078	\$ 32,713,873

See accompanying notes to financial statements.

Gratiot County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2006

	General	Revenue Sharing Reserve	Construction Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 959,726	\$ 11	\$ 568,409
Investments	-	-	-
Investments - restricted	-	-	-
Receivables			
Accounts	231,070	-	-
Interest	-	-	1,012
Taxes	795,723	-	-
Due from other funds	500	1,042,930	-
Due from other governmental units	20,946	-	-
Prepays	151,171	-	-
Advance to other governmental units	292,528	-	-
<b>TOTAL ASSETS</b>	<b>\$ 2,451,664</b>	<b>\$ 1,042,941</b>	<b>\$ 569,421</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 129,654	\$ -	\$ -
Accrued payroll	83,135	-	-
Due to other governmental units	-	-	-
Due to other funds	1,064,930	-	-
Deferred revenue	9,741	-	-
<b>TOTAL LIABILITIES</b>	<b>1,287,460</b>	<b>-0-</b>	<b>-0-</b>
<b>FUND BALANCES</b>			
Reserved for			
Advances	292,528	-	-
Parks	-	-	-
Prepays	151,171	-	-
Unreserved			
Designated for			
Private donation	806	-	-
Handicap	4,698	-	-
Veterans	150	-	-
Renaissance zone	171,077	-	-
Circuit court counsel	41,319	-	-
Prosecuting attorney	43,251	-	-
Liquor law enforcement	27,514	-	-
Undesignated, reported in			
General fund	431,690	-	-
Special revenue funds	-	1,042,941	-
Debt service funds	-	-	-
Capital projects funds	-	-	569,421
<b>TOTAL FUND BALANCES</b>	<b>1,164,204</b>	<b>1,042,941</b>	<b>569,421</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,451,664</b>	<b>\$ 1,042,941</b>	<b>\$ 569,421</b>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 629,432	\$ 2,157,578
30,000	30,000
35,000	35,000
131,067	362,137
-	1,012
-	795,723
-	1,043,430
167,836	188,782
4,379	155,550
-	292,528
<u>\$ 997,714</u>	<u>\$ 5,061,740</u>
\$ 72,698	\$ 202,352
22,154	105,289
38,025	38,025
-	1,064,930
-	9,741
<u>132,877</u>	<u>1,420,337</u>
-	292,528
37,583	37,583
4,379	155,550
-	806
-	4,698
-	150
-	171,077
-	41,319
-	43,251
-	27,514
-	431,690
796,597	1,839,538
8,429	8,429
17,849	587,270
<u>864,837</u>	<u>3,641,403</u>
<u>\$ 997,714</u>	<u>\$ 5,061,740</u>

Gratiot County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2006

**Total fund balance - governmental funds** \$ 3,641,403

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 12,559,455	
Accumulated depreciation is	<u>(3,783,230)</u>	
Capital assets, net		8,776,225

Internal Service Funds are used by management to charge the costs  
of certain activities to individual funds. The assets and liabilities  
of the Internal Service Funds are included in the governmental activities  
in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	260,537
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Long-term receivables are not available to pay for current period expenditures  
and are therefore deferred in the funds. These consist of:

Deferred revenue	9,741
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Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.  
Long-term liabilities at year-end consist of:

Direct County obligations	(4,860,827)	
Accrued interest payable	(94,265)	
Compensated absences	<u>(607,007)</u>	
		<u>(5,562,099)</u>

<b>Net assets of governmental activities</b>	<b><u><u>\$ 7,125,807</u></u></b>
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See accompanying notes to financial statements.

Gratiot County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2006

	General	Revenue Sharing Reserve	Construction Fund
REVENUES			
Taxes	\$ 5,933,350	\$ -	\$ -
Licenses and permits	142,381	-	-
Intergovernmental	1,015,689	-	-
Charges for services	1,850,102	-	-
Fines and forfeits	97,739	-	-
Interest and rents	33,594	-	10,091
Other	222,955	-	-
TOTAL REVENUES	9,295,810	-0-	10,091
EXPENDITURES			
Current			
General government	4,514,059	-	-
Public safety	2,823,133	-	-
Public works	653	-	-
Health and welfare	611,466	-	-
Community and economic development	90,544	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	782,293
Debt service	-	-	-
TOTAL EXPENDITURES	8,039,855	-0-	782,293
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,255,955	-0-	(772,202)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	1,605,000
Transfers in	1,883,691	1,367,058	-
Transfers out	(2,838,742)	(778,691)	(1,533)
TOTAL OTHER FINANCING SOURCES (USES)	(955,051)	588,367	1,603,467
NET CHANGE IN FUND BALANCES	300,904	588,367	831,265
Fund balances (deficit), beginning of year	863,300	454,574	(261,844)
Fund balances, end of year	\$ 1,164,204	\$ 1,042,941	\$ 569,421

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 784,715	\$ 6,718,065
142,906	285,287
1,957,590	2,973,279
201,488	2,051,590
4,500	102,239
63,750	107,435
292,425	515,380
3,447,374	12,753,275
617,851	5,131,910
456,721	3,279,854
-	653
2,940,987	3,552,453
66,217	156,761
256,405	256,405
105,185	887,478
465,466	465,466
4,908,832	13,730,980
(1,461,458)	(977,705)
-	1,605,000
1,608,352	4,859,101
(135,135)	(3,754,101)
1,473,217	2,710,000
11,759	1,732,295
853,078	1,909,108
\$ 864,837	\$ 3,641,403

Gratiot County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2006

**Net change in fund balances - total governmental funds** **\$ 1,732,295**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 820,105	
Depreciation expense	<u>(464,923)</u>	
Excess of depreciation expense over capital outlay		355,182

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	122,239
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond proceeds	(1,605,000)	
Bond principal and capital lease retirement	<u>265,889</u>	
		(1,339,111)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(21,648)	
Decrease in accrued compensated absences	<u>9,061</u>	
		<u>(12,587)</u>

<b>Change in net assets of governmental activities</b>	<b><u>\$ 858,018</u></b>
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See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

September 30, 2006

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 905,380	\$ 86,339	\$ 991,719	\$ 137,943
Investments	1,586,442	91,000	1,677,442	-
Receivables	778,661	1,552	780,213	16,208
Inventories	-	-	-0-	13,363
Due from other governmental units	86,626	-	86,626	-
Due from other funds	22,000	-	22,000	-
Prepays	-	-	-0-	206,341
Total current assets	3,379,109	178,891	3,558,000	373,855
Noncurrent assets				
Investments	845,300	-	845,300	-
<b>TOTAL ASSETS</b>	<b>4,224,409</b>	<b>178,891</b>	<b>4,403,300</b>	<b>373,855</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	71,489	3,906	75,395	24,902
Accrued liabilities	-	1,568	1,568	87,916
Due to other governmental units	66	-	66	-
Due to other funds	-	-	-0-	500
<b>TOTAL LIABILITIES</b>	<b>71,555</b>	<b>5,474</b>	<b>77,029</b>	<b>113,318</b>
<b>NET ASSETS</b>				
Unrestricted	<u>\$ 4,152,854</u>	<u>\$ 173,417</u>	<u>\$ 4,326,271</u>	<u>\$ 260,537</u>

See accompanying notes to financial statements.



Gratiot County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2006

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES				
Interest and penalties on delinquent taxes	\$ 163,990	\$ -	\$ 163,990	\$ -
Charges for services	7,225	146,066	153,291	2,216,846
Intergovernmental - local	-	-	-0-	45,768
Other revenue	-	30,452	30,452	34,102
TOTAL OPERATING REVENUES	171,215	176,518	347,733	2,296,716
OPERATING EXPENSES				
Salaries	-	26,469	26,469	-
Fringe benefits	-	12,085	12,085	2,094,052
Contractual services	-	1,521	1,521	-
Supplies	-	17,777	17,777	-
Communication	-	206	206	-
Miscellaneous	50	50,038	50,088	80,425
TOTAL OPERATING EXPENSES	50	108,096	108,146	2,174,477
OPERATING INCOME	171,165	68,422	239,587	122,239
NONOPERATING REVENUES				
Interest revenue	127,212	9,007	136,219	-
INCOME BEFORE TRANSFERS OUT	298,377	77,429	375,806	122,239
TRANSFERS OUT	(1,105,000)	-	(1,105,000)	-
CHANGE IN NET ASSETS	(806,623)	77,429	(729,194)	122,239
Net assets, beginning of year	4,959,477	95,988	5,055,465	138,298
Net assets, end of year	<u>\$ 4,152,854</u>	<u>\$ 173,417</u>	<u>\$ 4,326,271</u>	<u>\$ 260,537</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 2,541,918	\$181,204	\$2,723,122	\$ 2,282,828
Cash paid to suppliers	211	(70,645)	(70,434)	(77,364)
Cash paid for employee benefits	-	-	-	(2,168,211)
Cash paid to employees	-	(38,509)	(38,509)	-
Cash paid for delinquent taxes	(1,724,585)	-	(1,724,585)	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>817,544</b>	<b>72,050</b>	<b>889,594</b>	<b>37,253</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers out	(1,105,000)	-	(1,105,000)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(2,090,115)	(242,000)	(2,332,115)	-
Maturity of investments	2,059,268	151,000	2,210,268	-
Interest revenue	127,212	9,007	136,219	-
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>96,365</b>	<b>(81,993)</b>	<b>14,372</b>	<b>-0-</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(191,091)</b>	<b>(9,943)</b>	<b>(201,034)</b>	<b>37,253</b>
Cash and cash equivalents, beginning of year	1,096,471	96,282	1,192,753	100,690
Cash and cash equivalents, end of year	<u>\$ 905,380</u>	<u>\$ 86,339</u>	<u>\$ 991,719</u>	<u>\$ 137,943</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 171,165	\$ 68,422	\$ 239,587	\$ 122,239
Adjustments to reconcile operating income to net cash provided by operating activities				
(Increase) decrease in receivables	153,466	(206)	153,260	(13,888)
(Increase) in prepaids	-	-	-0-	(65,702)
(Increase) in due from other governmental units	(85,348)	-	(85,348)	-
Decrease in due from other funds	578,000	4,892	582,892	-
Increase (decrease) in accounts payable	10,580	(1,103)	9,477	(28,763)
(Decrease) in due to other governments	(5,427)	-	(5,427)	-
(Decrease) in due to other funds	(4,892)	-	(4,892)	(2,100)
Increase in accrued liabilities	-	45	45	25,467
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 817,544</b></u>	<u><b>\$ 72,050</b></u>	<u><b>\$ 889,594</b></u>	<u><b>\$ 37,253</b></u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

September 30, 2006

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 1,969,218
LIABILITIES	
Undistributed collections payable	\$ 136,309
Defendant bonds payable	42,454
Due to other governmental units	1,772,260
Due to individuals and agencies	18,195
TOTAL LIABILITIES	\$ 1,969,218

See accompanying notes to financial statements.

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2006

	Road Commission	Central Dispatch Authority	Board of Public Works
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,245,800	\$ 440,388	\$ 305
Receivables	936,308	80,770	-
Inventories	293,425	-	-
Prepays	-	86,851	-
Current portion of lease receivable	-	-	49,826
Total current assets	2,475,533	608,009	50,131
Noncurrent assets			
Lease receivable	-	-	405,000
Capital assets not being depreciated	544,709	-	-
Capital assets, net of accumulated depreciation	25,477,869	-	-
Total noncurrent assets	26,022,578	-0-	405,000
<b>TOTAL ASSETS</b>	<b>28,498,111</b>	<b>608,009</b>	<b>455,131</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	107,416	3,681	-
Accrued liabilities	36,371	12,781	-
Accrued interest payable	-	-	9,826
Due to other governmental units	209,563	-	-
Current portion of long-term debt	-	-	40,000
Total current liabilities	353,350	16,462	49,826
Noncurrent liabilities			
Advance from other governmental units	-	-	-
Advance from State	198,285	-	-
Compensated absences	312,223	-	-
Noncurrent portion of long-term debt	-	-	405,000
Total noncurrent liabilities	510,508	-0-	405,000
<b>TOTAL LIABILITIES</b>	<b>863,858</b>	<b>16,462</b>	<b>454,826</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	26,022,578	-	-
Restricted for other purposes	1,611,675	-	-
Unrestricted	-	591,547	305
<b>TOTAL NET ASSETS</b>	<b>\$ 27,634,253</b>	<b>\$ 591,547</b>	<b>\$ 305</b>

See accompanying notes to financial statements.

Drainage Districts	Total Component Units
\$ 482,499	\$ 2,168,992
751,872	1,768,950
-	293,425
-	86,851
-	49,826
1,234,371	4,368,044
-	405,000
184,044	728,753
4,719,196	30,197,065
4,903,240	31,330,818
6,137,611	35,698,862
10,738	121,835
-	49,152
20,656	30,482
-	209,563
409,326	449,326
440,720	860,358
292,528	292,528
-	198,285
-	312,223
916,595	1,321,595
1,209,123	2,124,631
1,649,843	2,984,989
3,577,319	29,599,897
-	1,611,675
910,449	1,502,301
<u>\$ 4,487,768</u>	<u>\$ 32,713,873</u>

Gratiot County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Drainage Districts	\$ 659,169	\$ 13,650	\$ -	\$ 936,284	\$ 290,765
Board of Public Works	35,241	-	-	27,415	(7,826)
Central Dispatch	757,144	713,310	541	-	(43,293)
Road Commission	6,918,340	862,449	4,349,010	1,417,861	(289,020)
TOTALS	<u>\$ 8,369,894</u>	<u>\$ 1,589,409</u>	<u>\$ 4,349,551</u>	<u>\$ 2,381,560</u>	(49,374)
General revenues					
Investment earnings					90,543
Miscellaneous					29,937
Total general revenues					<u>120,480</u>
CHANGE IN NET ASSETS					71,106
Restated net assets, beginning of year					<u>32,642,767</u>
Net assets, end of year					<u>\$ 32,713,873</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County of Gratiot, Michigan, was incorporated in 1855, and covers an area of approximately 580 square miles with the County seat located in the City of Ithaca. The County operates under an elected Board of Commissioners and provides services to its more than 40,000 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Gratiot County (primary government) and its component units. The component units described in Sections 2 and 3 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County. Blended component units, although legally separate entities, are in substance, part of the County's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

2. Blended Component Unit

A three (3) member Board appointed by the Gratiot County Board of Commissioners governs the Gratiot County Building Authority. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Debt Service and Capital Projects fund categories. A separate report is not prepared for the Building Authority.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Gratiot County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Gratiot County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Gratiot County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The Gratiot County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three (3) member board of county road commissioners. The Road Commission is a separate legal entity from the County and they maintain a separate financial and accounting system. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Gratiot County Board of Public Works (BPW) is a five (5) member Board comprised of the Drain Commissioner, a County Commissioner, a Road Commissioner, and two (2) members selected by the County Board of Commissioners (one (1) from City government and one (1) at large). The Board is under the general control of the County Board of Commissioners. The Board can acquire, improve, operate, and maintain water and sewage disposal systems for local units of government. Projects are initiated when the local unit requests the assistance of the BPW in organizing a project. Usually projects are financed by the sale of bonds upon final approval by the County Board of Commissioners as recommended by the BPW. The County must sell the bonds and pledge its full faith and security for payment of principal and interest. Special assessments are levied by the local units of government on benefited properties and are forwarded to the County for payment of principal and interest.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Discretely Presented Component Units - continued

The Drainage Districts in the County come under the jurisdiction of the Gratiot County Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Drain Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Drain Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The Central Dispatch Authority is classified as a joint venture with various other governmental units. The details related to this joint venture agreement are disclosed below.

4. Joint Ventures

The County participates in the following activities, which are considered to be joint ventures in relation to the County due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Gratiot County Central Dispatch Authority - The County is a member of the Gratiot County Central Dispatch Authority, which is a joint venture between Gratiot County, the Michigan State Police, the Villages of Ashley, Perrinton, and Breckenridge; and the Cities of Alma, St. Louis, and Ithaca. The Authority is governed by a ten (10) member board. One (1) board member is appointed by each of the participating governmental units and three (3) board members are set by statute. The three (3) statutory representatives are appointed by the Sheriff, the Fire Chief, and the Michigan State Police. The Authority has responsibility for preparing the annual budget (which is approved by the County) and to carry out all activities of the Authority.

The Authority's intent is to support and operate central dispatch services primarily with funds generated from operations (i.e., telephone surcharge fees). Any required local contributions would be calculated based on a pro rated scale, which takes into account the impact and use of the system for each participating unit. In November 2002, voters in Gratiot County approved a 911 surcharge to fully finance Central Dispatch Operations. For the year ended September 30, 2006, the County was not required to make a contribution to the Authority.

The financial activities of the Gratiot County Central Dispatch Authority are reported in the County's audited financial statements as a discretely presented component unit due to the County being responsible for the receipt and disbursement of the Authority's funds.

Gratiot Community Airport Commission - The County is a member of the Gratiot Community Airport Commission, which is a joint venture between Gratiot County and the City of Alma. Each unit appoints three (3) of the six (6) members to the Commission. The Commission has responsibility for preparing the annual budget (which is approved by the County and the City) and to carry out all activities of the Commission.

Each unit is responsible to fund 50% of the required local contribution to cover operational costs. The land and other property acquired during the term of the agreement are held by the County and City as tenants in common in such proportions as their contributions in the year of acquisition. For the year ended September 30, 2006, the County contributed \$35,000 to cover its share of operational costs.

The financial activities of the Gratiot Community Airport Commission are reported in the City of Alma's audited financial statements as a component unit, due to the City being responsible for the receipt and disbursement of the Commission's funds. As of June 30, 2006, the Commission had net assets of \$1,030,810. A copy of the Commission's audited financial statements can be obtained at City Hall.



NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Joint Ventures - continued

Mid-Michigan District Health Department - The County is a member of the Mid-Michigan District Health Department, which is a joint venture between Gratiot, Clinton, and Montcalm counties. Each unit appoints two (2) of the six (6) members to the governing Board. The Department has responsibility for preparing the annual budget (which is approved by each County) and to carry out all activities of the Department.

Each unit is responsible to fund a percentage of the overall budget pursuant to a formula included in the interlocal agreement to cover operational costs. For the year ended September 30, 2006, the County contributed \$272,136 to cover its share of operational costs.

The financial activities of the Mid-Michigan District Health Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended September 30, 2006, the last year audited, are available at the Department's administrative offices. As of September 30, 2006, the Department had a fund balance of \$1,249,935. A copy of the Department's audited financial statements can be obtained at their administrative offices.

5. Jointly Governed Organizations

The County participates in the following activities which are considered to be jointly governed organizations in relation to the County due to there being no ongoing financial interest or responsibility.

East Central Michigan Planning & Development Regional Commission - Gratiot County, in conjunction with thirteen (13) other Counties, has entered into an agreement which created the East Central Michigan Planning & Development Regional Commission. This organization's Board is composed of 48 members, of which two (2) are appointed by Gratiot County. The County's financial responsibility is to contribute a pro rata share of "local match" funds based on the proportion of State equalized valuation. For the year ended September 30, 2006, the County's contribution to the Commission was \$5,500.

Central Area Partnership Consortium - Gratiot County, in conjunction with three (3) other Counties, has entered into an agreement that created the Central Area Partnership Consortium. This organization's Board is composed of eight (8) members, of which two (2) are appointed by Gratiot County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to inappropriate use of the funds.

Mid-South Substance Abuse Commission - Gratiot County, in conjunction with five (5) other Counties, has entered into an agreement that created the Mid-South Substance Abuse Commission. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Gratiot County. The County's financial responsibility is to pass through 50% of the Convention and Tourism revenues received to the Commission. Also, if the Commission were to need additional operating funds, the County would be responsible to contribute a portion based on the percentage of Board membership (currently 7%). For the year ended September 30, 2006, the County passed through \$41,073 and was not required to make any additional appropriation.

6. Related Organizations

Greater Gratiot Development, Inc. - The purposes of the organization is to conduct an aggressive program for the economic growth and development of the Gratiot County area by assistance and encouragement for the maintenance and expansion of existing business and industry, the acquisition of new business and branch plants, the conduct of such other activities which will broaden the economic base to increase employment and business opportunities, and generally contribute to the advancement and growth of the area for the purpose of benefiting the community. Activities to create jobs and enhance the local tax base are its highest priority. A substantive part of these activities is offering help to new and existing small businesses in obtaining financing and making low interest loans to industrial oriented firms. For the year ended September 30, 2006, the County's contribution to Greater Gratiot Development, Inc. was \$85,038.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Related Organizations - continued

Gratiot County Community Mental Health Services - The Gratiot County Community Mental Health Services (Board) operates under the provisions of PA 258 of 1974, as amended. This organization is an Authority in accordance with the Act and is a completely separate unit of government. Their audit can be obtained at their administrative offices. The Board provides funding for services in the area of mental illness, developmental disabilities, and other related mental health needs for the residents of the County of Gratiot. For the year ended September 30, 2006, the County's contribution to Mental Health Services was \$200,000.

7. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Revenue Sharing Reserve Fund was established to account for the shift of State Revenue Sharing dollars from State to local funding.
- c. The Construction Fund was established to account for costs in connection with various construction projects.
- d. The Delinquent Tax Revolving Fund accounts for money advanced by the County to other local taxing units and various County funds to pay for their delinquent real property taxes. Revenues are generated by the collection of delinquent real property taxes, penalties, and interest.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**8. Measurement Focus**

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

**9. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit, mutual funds, U.S. government securities, and time certificates with an original maturity of 90 days or less.

11. Restricted Investments

The Fraker Trust holds funds in a separate account for the future payment of the trust fund expenses related to maintenance or improvement of the park in Pompeii.

12. Investments

Investments consist of U.S. government securities and certificates of deposit with original maturities of greater than 90 days. Investments are recorded at cost, which approximates market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

13. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

14. Inventories

Inventories in the Drain Tile (Internal Service) Fund consist of equipment parts and materials. These items are valued at cost on a first-in/first-out basis. Inventories in the Road Commission (Component Unit) Fund are priced at cost as determined on the average cost method. Road Commission inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

15. Capital Assets

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$10,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	3 - 5 years
Drain infrastructure	40 years

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Capital Assets - continued

ROAD COMMISSION - COMPONENT UNIT

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	8 - 30 years
Infrastructure - Bridges	12 - 50 years

16. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

17. Advances to other governmental units

Long-term advances from the primary government to component units are made to finance new activities during their initial operations and to finance capital acquisitions. The applicable fund balance is reserved in the Fund financial statements for such advances to reflect the amount of fund balance not currently available for expenditure.

18. Accrued Compensated Absences

In accordance with the County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

18. Accrued Compensated Absences - continued

Vested vacation and sick leave earned as of September 30, 2006, including related payroll taxes, is recorded in the government-wide financial statements.

19. Deferred Revenue

Deferred revenue consists of amounts related to long-term receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred or amounts that have not been earned and are deferred at the fund level and government-wide level.

20. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

21. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to May 1, the County departments, in conjunction with the Administrator's office, prepare and submit their proposed operating budgets to the Budget and Finance Committee for the fiscal year commencing the following October 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to September 30, the budgets are legally enacted through passage of an annual budget resolution.
- d. The budgets are legally adopted at the activity level for the General Fund and the fund level for the Special Revenue funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all funds' budgets are maintained at the activity and account level. The Treasurer and Administrator are authorized to transfer budget amounts between accounts.
- e. The County does not employ encumbrance accounting as an extension of formula budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- f. Applicable budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.

22. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****23. Comparative Data**

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

**NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT**

The County utilizes pooled cash accounts for approximately fifty-nine (59) funds. Cash overdrafts of individual funds as of September 30, 2006, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Non-pooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Friend of the Court	\$( 59,101 )	-	\$( 59,101 )
Clinton County Child Care	( 36,599 )	-	( 36,599 )
DHS State Monies	( 43,784 )	-	( 43,784 )
Juvenile Child Care	( 23,755 )	-	( 23,755 )
TOTAL PRIMARY GOVERNMENT	<u>\$( 163,239 )</u>	<u>\$ -0-</u>	<u>\$ 163,239</u>

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The County utilizes various pooled cash accounts and investments for approximately fifty-nine (59) funds. The County's pooled cash and investments consist of a common checking account, savings, certificates of deposit, and mutual funds.

The County's pooled cash and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and Component Unit Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are separately held by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), FSLIC, and NCUA regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

As of September 30, 2006, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking	\$ 2,443,986	\$ 4,728,443
Certificates of deposit	<u>1,464,000</u>	<u>1,459,744</u>
Total primary government	3,907,986	6,188,187
<b>COMPONENT UNITS</b>		
Checking and savings	1,792,376	1,873,232
Certificates of deposit	<u>376,416</u>	<u>376,416</u>
Total component units	2,168,792	2,249,648
<b>Fiduciary Funds</b>		
Checking	<u>1,969,218</u>	<u>264,497</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 8,045,996</u>	<u>\$ 8,702,332</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of September 30, 2006, the primary government, component units, and fiduciary fund accounts were insured by the FDIC, FSLIC or NCUA for \$1,319,173 and the amount of \$7,383,159 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.



NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Investments

As of September 30, 2006, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Uncategorized pooled investments				
MBIA - Michigan Class	\$ 272,506	\$ 272,506	Not Rated	40 days
AF Government Class I	68,848	68,848	Aaa	1 day
Federal Home Loan Bank	1,122,839	1,114,091	Aaa	2.35 years
Federal Home Loan Mortgage Association	<u>500,903</u>	<u>492,673</u>	Aaa	2.35 years
	<u>\$ 1,965,096</u>	<u>\$ 1,948,118</u>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2006, rating information on the County's investments is presented above.

Interest rate risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operating funds primarily in shorter-term securities, liquid asset funds, money market, mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

Concentration of credit risk

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The County will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- Limiting investments to the types of securities listed in this investment policy
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the County will do business in accordance with this investment policy.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of September 30, 2006:

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 3,287,240	\$ 2,168,992	\$ 1,969,218	\$ 7,425,450
Investments - restricted	35,000	-	-	35,000
Investments	<u>2,552,742</u>	<u>-</u>	<u>-</u>	<u>2,552,742</u>
	<u>\$ 5,874,982</u>	<u>\$ 2,168,992</u>	<u>\$ 1,969,218</u>	<u>\$10,013,192</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$1,900 in imprest cash. The component unit cash and cash equivalents caption on the Statement of Net Assets includes \$200 in imprest cash. The restricted investment of \$35,000 was being held by the County in a separate account for future maintenance and improvements of the park in Pompeii per a formal trust agreement.

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at September 30, 2006:

Due to General Fund from:	
Internal Service Funds	<u>\$ 500</u>
Due to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 1,042,930</u>
Due to Delinquent Tax Revolving Fund from:	
General Fund	<u>\$ 22,000</u>
Due to Component Unit Funds from:	
Other Component Unit Funds	<u>\$ 300,640</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Reserve Fund	\$ 778,691
Delinquent Tax Revolving	<u>1,105,000</u>
Total transfers to general fund from other funds	<u>\$ 1,883,691</u>
Transfer to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 1,367,058</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE E: INTERFUND TRANSFERS - CONTINUED**

Transfers to nonmajor governmental funds from:	
General Fund	\$ 1,471,684
Construction Fund	1,533
Nonmajor governmental funds	<u>135,135</u>
Total transfers to nonmajor governmental funds	<u>\$ 1,608,352</u>
Transfer to Component Unit Funds from:	
Other Component Unit Funds	<u>\$ 946,920</u>

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2006 was as follows:

**Primary Government**

	<u>Balance</u> <u>Oct. 1, 2005</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>Sept. 30, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 519,157	\$ 125,952	\$ -	\$ 645,109
Construction in progress	<u>253,870</u>	<u>-</u>	<u>( 253,870 )</u>	<u>-0-</u>
Subtotal	773,027	125,952	( 253,870 )	645,109
Capital assets being depreciated				
Buildings and additions	9,336,400	430,625	-	9,767,025
Equipment and furniture	1,018,549	517,398	( 44,560 )	1,491,387
Vehicles	<u>655,934</u>	<u>-</u>	<u>-</u>	<u>655,934</u>
Subtotal	11,010,883	948,023	( 44,560 )	11,914,346
Less accumulated depreciation for				
Buildings and additions	( 2,422,011 )	( 194,089 )	-	( 2,616,100 )
Equipment and furniture	( 504,273 )	( 134,153 )	17,942	( 620,484 )
Vehicles	<u>( 436,583 )</u>	<u>( 110,063 )</u>	<u>-</u>	<u>( 546,646 )</u>
Subtotal	<u>( 3,362,867 )</u>	<u>( 438,305 )</u>	<u>17,942</u>	<u>( 3,783,230 )</u>
Net capital assets being depreciated	<u>7,648,016</u>	<u>509,718</u>	<u>( 26,618 )</u>	<u>8,131,116</u>
Capital assets, net	<u>\$ 8,421,043</u>	<u>\$ 635,670</u>	<u>\$( 280,488 )</u>	<u>\$ 8,776,225</u>

The current year depreciation expense of \$438,305 has been adjusted by \$26,618 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense was charged to the following governmental activities:

General government	\$ 129,664
Public safety	237,000
Recreation and cultural	62,677
Health and welfare	<u>35,582</u>
Total depreciation expense	<u>\$ 464,923</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Unit - Drainage Districts**

	<u>Restated Balance Oct. 1, 2005</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance Sept. 30, 2006</u>
Component Unit - Drainage Districts				
Capital assets not being depreciated				
Construction in progress	\$ 203,927	\$ 207,937	\$( 227,820 )	\$ 184,044
Capital assets being depreciated				
Drains	5,318,490	452,403	-	5,770,893
Equipment and furniture	43,949	-	-	43,949
Vehicles	<u>38,221</u>	<u>-</u>	<u>-</u>	<u>38,221</u>
Subtotal	5,400,660	452,403	-0-	5,853,063
Less accumulated depreciation for				
Drains	( 958,165 )	( 144,272 )	-	( 1,102,437 )
Equipment and furniture	( 2,930 )	( 8,790 )	-	( 11,720 )
Vehicles	<u>( 12,066 )</u>	<u>( 7,644 )</u>	<u>-</u>	<u>( 19,710 )</u>
Subtotal	<u>( 973,161 )</u>	<u>( 160,706 )</u>	<u>-0-</u>	<u>( 1,133,867 )</u>
Net capital assets being depreciated	<u>4,427,499</u>	<u>291,697</u>	<u>-0-</u>	<u>4,719,196</u>
Capital assets, net	<u>\$ 4,631,426</u>	<u>\$ 499,634</u>	<u>\$( 227,820 )</u>	<u>\$ 4,903,240</u>

**Component Unit - Central Dispatch Authority**

Component Unit - Central Dispatch				
Capital assets being depreciated				
Equipment	\$ 126,365	\$ -	-	\$ 126,365
Less accumulated depreciation for				
Equipment	<u>( 126,365 )</u>	<u>-</u>	<u>-</u>	<u>( 126,365 )</u>
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**Component Unit - Road Commission**

Component Unit - Road Commission				
Capital assets not being depreciated				
Land	\$ 116,903	\$ -	\$ -	\$ 116,903
Infrastructure - Land/Right-of-Way	3,086	-	-	3,086
Infrastructure - Land Improvements	<u>222,774</u>	<u>201,946</u>	<u>-</u>	<u>424,720</u>
Subtotal	342,763	201,946	-0-	544,709

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Unit - Road Commission - continued**

	Restated Balance Oct. 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Sept. 30, 2006
Capital assets being depreciated				
Land Improvements	\$ 59,959	\$ -	\$ -	\$ 59,959
Buildings	2,213,570	-	-	2,213,570
Road Equipment	5,109,396	602,166	( 334,221 )	5,377,341
Shop Equipment	112,363	26,900	-	139,263
Office Equipment	216,149	5,231	-	221,380
Engineer's Equipment	92,964	2,072	-	95,036
Yard and Storage	16,573	-	-	16,573
Infrastructure - Bridges	14,716,931	17,973	-	14,734,904
Infrastructure - Roads	22,389,605	1,828,455	( 1,244,150 )	22,973,910
Infrastructure - Traffic Signals	<u>4,558</u>	<u>-</u>	<u>-</u>	<u>4,558</u>
Subtotal	44,932,068	2,482,797	( 1,578,371 )	45,836,494
Less accumulated depreciation for				
Land Improvements	( 36,567 )	( 1,723 )	-	( 38,290 )
Building	( 554,101 )	( 38,541 )	-	( 592,642 )
Road Equipment	( 4,079,875 )	( 465,769 )	190,749	( 4,354,895 )
Shop Equipment	( 79,819 )	( 8,832 )	-	( 88,651 )
Office Equipment	( 148,751 )	( 19,213 )	-	( 167,964 )
Engineer's Equipment	( 79,622 )	( 4,531 )	-	( 84,153 )
Yard and Storage	( 11,670 )	( 828 )	-	( 12,498 )
Infrastructure - Bridges	( 4,643,574 )	( 304,940 )	-	( 4,948,514 )
Infrastructure - Roads	( 9,502,076 )	( 1,808,827 )	1,244,150	( 10,066,753 )
Infrastructure - Traffic Signals	<u>( 4,192 )</u>	<u>( 73 )</u>	<u>-</u>	<u>( 4,265 )</u>
Subtotal	<u>(19,140,247 )</u>	<u>( 2,653,277 )</u>	<u>1,434,899</u>	<u>(20,358,625 )</u>
Capital assets being depreciated, net	<u>25,791,821</u>	<u>( 170,480 )</u>	<u>( 143,472 )</u>	<u>25,477,869</u>
Total capital assets, net	<u>\$26,134,584</u>	<u>\$ 31,466</u>	<u>\$( 143,472 )</u>	<u>\$ 26,022,578</u>

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct equipment	\$ 465,769
Indirect equipment	
Shop building	25,169
Storage building	829
Shop equipment	8,832
State salt shed	8,929
Net Administrative Expense	
Buildings	4,442
Office equipment and furniture	19,213
Engineers Equipment	4,531
Land and Improvements	1,723
Infrastructure	<u>2,113,840</u>
Total depreciation expense	<u>\$ 2,653,277</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long term debt (including current portion) of the County for the year ended September 30, 2006:

	Balance Oct. 1, 2005	Additions	Deletions	Balance Sept. 30, 2006	Amounts Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities					
Direct County Obligations - Bonds	\$ 3,521,716	\$ 1,605,000	\$ 265,889	\$ 4,860,827	\$ 376,133
Accrued compensated absences	<u>616,068</u>	<u>-</u>	<u>9,061</u>	<u>607,007</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>4,137,784</b>	<b>1,605,000</b>	<b>274,950</b>	<b>5,467,834</b>	<b>376,133</b>
<b>COMPONENT UNITS</b>					
Road Commission					
Accrued compensated absences	330,023	-	17,800	312,223	-
Board of Public Works					
Water and sewer bonds	765,000	-	320,000	445,000	40,000
Drainage Districts					
Drain bonds and notes	<u>1,280,595</u>	<u>424,300</u>	<u>378,974</u>	<u>1,325,921</u>	<u>409,326</u>
<b>TOTAL COMPONENT UNITS</b>	<b><u>2,375,618</u></b>	<b><u>424,300</u></b>	<b><u>716,774</u></b>	<b><u>2,083,144</u></b>	<b><u>449,326</u></b>
<b>TOTAL REPORTING ENTITY</b>	<b><u>\$ 6,513,402</u></b>	<b><u>\$ 2,029,300</u></b>	<b><u>\$ 991,724</u></b>	<b><u>\$ 7,550,978</u></b>	<b><u>\$ 825,459</u></b>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**

**Direct County Obligations - Bonds**

The Gratiot County Board of Commissioners is party to three (3) long-term lease agreements for rental of the Mental Health Building, the District Health and Jail renovations, and the Courthouse addition from the Gratiot County Building Authority. The lease agreements stipulate that the annual rentals be paid by the County to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired for the buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at September 30, 2006 is as follows:

\$2,100,000 Gratiot County Building Authority Bonds (District Health and Jail Renovations) - Series 2001, dated May 1, 2001, due in annual installments ranging from \$75,000 to \$200,000 through May 1, 2019, with interest ranging from 4.15 to 5.00 percent, payable semi-annually. \$ 1,825,000

\$490,000 Gratiot County Building Authority Bonds (Mental Health Addition) - Series 1988, dated March 1, 1988, due in annual installments ranging from \$45,000 to \$50,000 through November 1, 2008, with interest ranging from 7.75 to 7.80 percent, payable semi-annually. 140,000

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE G: LONG-TERM DEBT - CONTINUED**

PRIMARY GOVERNMENT - CONTINUED

Direct County Obligations - Bonds - continued

\$2,500,000 Gratiot County Building Authority Bonds (Courthouse renovation) - Series 1994, dated February 15, 1994, due in annual installments ranging from \$150,000 to \$200,000 through May 1, 2013, with interest ranging from 4.50 to 5.00 percent, payable semi-annually.	\$ 1,250,000
\$60,000 County of Gratiot Capital Improvement Bonds (Fairgrounds) - Series 2002, dated August 26, 2002, due in semi-annual installments ranging from \$3,036 to \$3,795 through May 1, 2012, with interest of 4.099 percent, payable semi-annually.	40,827
\$1,400,000 County of Gratiot Capital Improvement Bonds (Construction) - Series 2005, dated October 1, 2005, due in annual installments ranging from \$25,000 to \$100,000 through October 1, 2025, with interest ranging from 3.75 to 4.40 percent, payable semi-annually.	1,400,000
\$205,000 County of Gratiot Capital Improvement Bonds (Site Improvements) - Series 2006, dated August 24, 2006, due in annual installments ranging from \$16,264 to \$24,706 through October 1, 2016, with interest of 4.34 percent payable semi-annually.	<u>205,000</u>
	<u>\$ 4,860,827</u>

Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$229,956 and \$377,051 for vacation and sick, respectively, at September 30, 2006. This amount, \$607,007, has been reported as a noncurrent liability.

COMPONENT UNIT - ROAD COMMISSION

Accrued Compensated Absences

In accordance with County Road Commission personnel policies and/or contracts negotiated with various employee groups of the County Road Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$155,125 and \$157,098 for vacation and sick, respectively, at September 30, 2006. This amount, \$312,223, has been reported as a noncurrent liability.

COMPONENT UNIT - BOARD OF PUBLIC WORKS

Indirect County Obligations - Water and Sewer Bonds

The County has irrevocably pledged its full faith and credit as collateral for the following water and sewer system bonds. These projects are administered by the Gratiot County Drain Commission for local municipalities. Payments by the municipalities to the County, in accordance with contractual agreements, provide the monies required to meet the principal and interest on the water and sewer system bonds.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE G: LONG-TERM DEBT - CONTINUED**

COMPONENT UNIT - BOARD OF PUBLIC WORKS - CONTINUED

Indirect County Obligations - Water and Sewer Bonds - continued

\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds, dated August 1, 1996, due in annual installments ranging from \$10,000 to \$20,000 through May 1, 2022, with interest ranging from 5.3 to 6.0 percent, payable semi-annually. \$ 260,000

\$285,000 County of Gratiot Water Supply Bonds (Village of Perrinton) Water Supply System improvements - Series 2002, dated January 1, 2002, due in annual installments ranging from \$30,000 to \$35,000 through May 1, 2012, with interest ranging from 4.10 to 4.85 percent, payable semi-annually. 185,000

TOTAL WATER AND SEWER BONDS \$ 445,000

COMPONENT UNIT - DRAINAGE DISTRICTS

Drain Notes

The County has irrevocably pledged its full faith and credit as collateral for the following drain notes. These projects are administered by the Gratiot County Drain Commission for various local drainage districts. The drain notes were issued to finance the various Construction Funds for the purpose of paying costs in connection with various drainage district projects and are payable out of assessments to be made against the benefited properties.

Notes payable at September 30, 2006, per respective Drain projects serviced from the Component Unit Debt Service Funds are as follows:

Various drain notes due in various annual installments and interest rates through 2013. \$ 1,325,921

The annual requirements to pay the debt principal and interest outstanding for the above Bonds and Notes are as follows:

**Primary Government**

Year Ending September 30,	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 376,133	\$ 214,844
2008	392,651	200,394
2009	449,239	181,327
2010	400,278	161,572
2011	426,361	144,496
2012-2016	1,541,458	502,384
2017-2021	1,099,707	167,786
2022-2026	<u>175,000</u>	<u>15,694</u>
	<u>\$ 4,860,827</u>	<u>\$ 1,588,497</u>



Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE G: LONG-TERM DEBT - CONTINUED**

**Component Units**

Year Ending September 30,	Board of Public Works Water and Sewer Bonds		Drainage Districts Drain Notes	
	Principal	Interest	Principal	Interest
2007	\$ 40,000	\$ 23,583	\$ 409,326	\$ 54,911
2008	40,000	21,822	391,157	38,718
2009	40,000	19,993	248,755	24,970
2010	45,000	18,092	147,383	13,756
2011	45,000	15,873	51,433	5,743
2012-2016	115,000	52,502	77,867	4,796
2017-2021	100,000	24,000	-	-
2022-2026	20,000	1,200	-	-
	<u>\$ 445,000</u>	<u>\$ 177,065</u>	<u>\$ 1,325,921</u>	<u>\$ 142,894</u>

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT**

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Plan Description

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public employee retirement system. MERS is authorized and operated under State law, Act 135 of Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time and regular part-time County employees are covered by the retirement system with the exception of the Mental Health and Road Commission employees. The Road Commission employees are covered under a separate retirement plan. Effective September 30, 2000, the MERS became a closed pension system. New hires are not allowed to participate in the MERS.

Annual Pension Cost

For the year ended September 30, 2006 the County's annual pension cost of \$678,085 for the plan was equal to the County's required contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003 using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED**

## PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$11,802,020	\$12,630,829	\$13,440,536
Actuarial accrued liability (AAL) (entry age)	16,505,312	17,708,602	18,725,489
Unfunded AAL	4,703,292	5,077,773	5,284,953
Funded ratio	72%	71%	72%
Covered payroll	3,147,000	3,248,639	3,224,956
UAAL as a percentage of covered payroll	149%	156%	164%
Annual pension cost	549,549	592,531	678,085
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

## COMPONENT UNIT - ROAD COMMISSION

Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MCA 5.333(a)); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$50,111. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 9.3% for general employees and 5.7% for salaried employees, for the calendar year December 31, 2005 based on 2003 actuarial.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED**

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Annual Pension Cost

During the calendar year ended December 31, 2005, the Road Commission's contributions totaling \$134,457 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employees contributed \$50,111 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information for GASB Statement No. 27

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 82,268	100 %	\$ -0-
2004	128,685	100	-0-
2005	134,457	100	-0-

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$ 9,413,084	\$ 9,981,248	\$ 568,164	94 %	\$ 1,533,716	37 %
12/31/04	9,665,886	10,337,470	671,584	94	1,659,170	40
12/31/05	9,910,430	10,638,710	728,280	93	1,657,109	44

**NOTE I: EMPLOYEE RETIREMENT SYSTEM - DEFINED CONTRIBUTION**

Plan Description

The County has also established a 401 Money Purchase Plan for all new hires effective October 1, 2000, which meets the criteria of GASB Statement 27 as a Defined Contribution Plan. The Plan is administered by the International City Management Association (ICMA) Retirement Corporation, a nonprofit corporation. ICMA is an investment advisor registered with the Securities and Exchange Commission under Investment Advisors Act of 1940, as amended, and under the Uniform Securities Act, 1964 PA 265, Michigan Compiled Laws 451.501-451.818, to the extent required by law.

Funding Policy

If covered employees contribute 0% of their annual salary to the plan the County must contribute 3% of each participant's annual salary. The County will contribute 6% if the participant chooses to contribute 3% subject to limitations of sections 415 (c) and (e) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE J: CONTINGENT LIABILITIES**

The County participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various legal actions pending against the County. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the County's potential liability, if any. Those actions for which a reasonable estimate can be determined of the County's potential liability and that would not be covered by insurance and reserves, if any, are considered by County Management and Legal Counsel to be immaterial.

**NOTE K: ROAD COMMISSION FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2006, the Federal aid received and expended by the Gratiot County Road Commission was \$600,946 for contracted projects. The Road Commission neither received nor expended any federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission. Due to these facts, all of these funds have been excluded from the County's Single Audit, which is presented under separate cover.

**NOTE L: RISK MANAGEMENT**

The County participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The County has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, motor vehicle, and physical damage and property damage.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE L: RISK MANAGEMENT - CONTINUED**

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and auto liability	\$ 100,000
Property coverage	10,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

In addition, the Authority has accumulated resources to create and fund an Internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$126,000 net of reinsurance for any one (1) member in any one (1) year. Aggregate paid losses in excess of \$126,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund resources are insufficient to fund losses, the remaining liability shall become the responsibility of the Authority as a whole.

At September 30, 2006, the County had funds on deposit of \$7,421 with the Authority in the Member Retention Funds. The Authority's reported reserves at September 30, 2006 for reported claims related to the County was \$29,489.

Gratiot County is self insured for health insurance up to \$15,000 for each employee contract, and is also self insured on an aggregate level of \$6,185 per contract. The County is insured for the amount of claims in excess of the \$15,000 per person, and/or a total medical claims amount which exceeds the aggregate attachment point of \$6,185 per contract, annually. The County's program is administered by Blue Cross and Blue Shield of Michigan, which furnishes claims review and processing.

**COMPONENT UNIT - ROAD COMMISSION**

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses for the member is the sole obligation of the member.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE M: PROPERTY TAXES AND TAXES RECEIVABLE**

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy is shifting over the next three years from winter to summer.

The County's Winter 2005 and Summer 2006 ad valorem taxes were levied and collectible on December 1, 2005 and July 1, 2006, respectively. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's Winter 2005 and Summer 2006 tax levies have been recognized as revenue in the current fiscal year. The 2005 taxable value of Gratiot County amounted to \$779,724,841 on which ad valorem taxes levied for County general operating purposes consisted of 3.6934 mills for Winter 2005 and 3.6546 mills for Summer 2006. The Gratiot County Commission on Aging has levied .6443 mills for services related to the aging within the County. The Gratiot County Parks have levied .3500 mills for services related to parks and recreation within the County.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2006. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Delinquent Tax Revolving Fund. This activity is accounted for in the Delinquent Tax Revolving (Enterprise) Fund.

**NOTE N: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance which the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the various fund balance reserves and designations as of September 30, 2006:

**PRIMARY GOVERNMENT**

General Fund

Reserved for prepaids	\$ 151,171
Reserved for advances to other governmental units	<u>292,528</u>

443,699

Nonmajor governmental funds

Reserved for parks	37,583
Reserved for prepaids	<u>4,379</u>

41,962

\$ 485,661

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE N: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED**

PRIMARY GOVERNMENT - CONTINUED

General Fund	
Designated for	
Private donation	\$ 806
Veterans	150
Handicap	4,698
Renaissance zone	171,077
Circuit Court Counsel	41,319
Prosecuting Attorney	43,251
Liquor law enforcement	<u>27,514</u>
	<u>\$ 288,815</u>

**NOTE O: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of September 30, 2006:

PRIMARY GOVERNMENT

Governmental activities	
Restricted for	
Public safety	
Drug law enforcement	\$ 24,941
Secondary road patrol	5,600
Michigan justice training	10,396
Corrections officer training	<u>28,917</u>
	<u>\$ 69,854</u>
Other purposes	
Mental health lease	\$ 71,289
Solid waste planning	887
Emergency contingency	25,000
Law library	12,780
Commission on aging	94,898
Community development	72,823
Clinton County child care	48,401
Social welfare	19,903
Gratiot County child welfare	23,559
Parks	<u>37,583</u>
	<u>\$ 407,123</u>
Capital improvement	<u>\$ 587,270</u>

COMPONENT UNIT

Road Commission	
Restricted for County roads	<u>\$ 1,611,675</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE P: POST-EMPLOYMENT BENEFITS**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

In addition to providing pension benefits, the County provides certain health care benefits for employees who retired on or after 1987. Substantially all of the County's employees may become eligible for those benefits if they reach the normal retirement age of 60 with at least ten (10) years of credited service, or reach the age of 55 with at least 25 years of credited service, while working for the County. The County will pay \$500 per year toward the cost of health insurance premiums and an additional \$200 per year for each year of credited service over ten (10) years, up to a maximum of \$2,500 for all employees except sheriff's union employees, which receive up to a maximum of \$3,500.

Upon reaching the age of 65, the County provided benefits are reduced to \$55.60 per month, plus 1/2 of the increase in premium cost over this amount. This reduction is due to the retirees becoming eligible for Medicare coverage at that time.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended September 30, 2006, those costs totaled \$74,997. In addition, \$1,640 was paid for life insurance premiums. These costs were paid for by all applicable funds based on approved full-time equivalents (FTE's).

**COMPONENT UNIT - ROAD COMMISSION**

Effective August 1, 2000 for road commission union employees and December 1, 2000 for road commission salaried employees, the Road Commission agrees to pay \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Two people qualified under this policy during the fiscal year ending September 30, 2006.

Effective August 1, 2003, the Road Commission agrees to pay \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2006.

Effective March 1, 2006, the Road Commission agrees to pay the first \$500 per month towards the hospitalization coverage premium for any union employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2006.

Effective February 1, 2006, the Road Commission agrees to pay the first \$350 per month towards the hospitalization coverage premium for any salaried employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2006.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$22,250 for hospitalization benefits during the fiscal year ended September 30, 2006.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has recently related Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008.



Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE Q: FUND DEFICIT**

The following fund had a fund balance deficit at September 30, 2006:

Primary Government	
Nonmajor governmental funds	
Friend of the court fund	\$ <u>2,473</u>
Child care - juvenile fund	\$ <u>22,026</u>

**NOTE R: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

In the body of the financial statements, the County's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the total expenditure level for the major Special Revenue Funds.

During the year ended September 30, 2006, the County incurred expenditures in the General Fund and four (4) nonmajor Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Circuit Court	\$ 226,716	\$ 243,634	\$ 16,918
Public safety			
Liquor law enforcement	11,000	12,472	1,472
Planning commission	1,527	1,673	146
Health and welfare			
Contagious disease	4,000	4,522	522
Medical examiner	60,411	62,357	1,946
Transfers out	2,838,059	2,838,742	683
Special Revenue Funds			
Clinton County Child Care	203,000	451,904	248,904
Gratiot County Child Welfare	130,000	161,142	31,142
Social Welfare	17,000	22,171	5,171
Revenue Sharing Reserve	778,000	778,691	691

**NOTE S: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustment was made during the period, which was the result of the correction of accounting errors. This adjustment was reported as a change to the beginning net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	<u>September 30, 2006</u>	<u>2005</u>	<u>Description</u>
COMPONENT UNITS			
Road Commission			
Capital assets, net	\$ -	\$( 2,027,115 )	Correct overstated
Change in net assets	-	( 2,027,115 )	capital assets
Net assets - beginning	( 2,027,115 )	-	

## **REQUIRED SUPPLEMENTARY INFORMATION**

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES

Year Ended September 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes				
Current and delinquent property taxes	\$ 5,227,209	\$ 5,227,209	\$ 5,403,574	\$ 176,365
Personal property taxes	422,961	422,961	389,803	(33,158)
Payments in lieu of taxes	6,000	15,000	20,712	5,712
Mobile home park taxes	3,500	3,500	4,237	737
Industrial facility tax	89,178	89,178	109,706	20,528
Interest and penalty	1,000	4,000	5,318	1,318
Total taxes	5,749,848	5,761,848	5,933,350	171,502
Licenses and permits				
Dog licenses	126,000	109,710	106,242	(3,468)
Other licenses and permits	31,500	35,500	36,139	639
Total licenses and permits	157,500	145,210	142,381	(2,829)
Intergovernmental				
Federal/State				
Prosecuting Attorney CRP	46,000	46,000	48,226	2,226
Sheriff - inmate housing	30,000	30,000	24,669	(5,331)
Sheriff - diverted felon	15,000	38,000	42,361	4,361
Convention facility liquor tax	79,493	82,093	82,146	53
Victims' Rights	41,200	42,500	33,547	(8,953)
Judges standardization	91,448	91,448	91,448	-0-
Probate court judge	94,195	94,195	102,064	7,869
Juvenile court director	27,318	27,318	27,317	(1)
State caseload assistance	27,677	31,177	39,414	8,237
Tobacco - juvenile	350	350	-	(350)
Cigarette tax	24,827	26,432	26,432	-0-
Court equity/cost	280,000	280,000	265,881	(14,119)
Emergency management	33,958	36,458	36,822	364
Remonumentation grant	60,000	67,000	67,988	988
Bullet proof vest grant	1,000	2,000	2,999	999
Communications equipment grant	-	23,810	22,000	(1,810)
Local	108,000	146,000	102,375	(43,625)
Total intergovernmental	960,466	1,064,781	1,015,689	(49,092)

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES - CONTINUED				
Charges for services				
Sheriff	\$ 82,800	\$ 84,400	\$ 70,150	\$ (14,250)
Treasurer fees	5,000	5,000	4,726	(274)
Information management	1,350	1,350	10	(1,340)
District Court	1,222,040	1,234,240	1,203,096	(31,144)
Circuit Court	3,500	3,500	3,712	212
Prosecuting Attorney	2,400	2,400	1,521	(879)
Juvenile Court	71,000	51,025	44,083	(6,942)
Clerk	142,550	138,550	130,764	(7,786)
Register of deeds	260,000	260,000	264,974	4,974
Equalization	2,900	2,900	3,295	395
Probate Court	32,350	32,850	26,770	(6,080)
Animal control	6,000	7,000	8,177	1,177
Remonumentation	9,500	9,500	4,200	(5,300)
Liquor law enforcement	9,000	10,800	10,830	30
Fairground fee	7,745	7,745	7,745	-0-
Tax administration fee	62,500	67,500	66,049	(1,451)
Total charges for services	1,920,635	1,918,760	1,850,102	(68,658)
Fines and forfeits				
Bond forfeitures	1,700	11,700	12,100	400
District Court	68,000	83,000	85,639	2,639
Total fines and forfeits	69,700	94,700	97,739	3,039
Interest and rents				
Interest on investments	25,000	25,000	25,729	729
Rents	9,750	7,865	7,865	-0-
Total interest and rents	34,750	32,865	33,594	729
Other				
Sale of capital assets	10,000	10,000	45	(9,955)
Reimbursements - indirect costs	129,834	125,134	119,544	(5,590)
Reimbursements - direct costs	41,240	59,240	56,655	(2,585)
Reimbursements - other	47,900	47,900	41,180	(6,720)
Other	1,610	4,610	5,531	921
Total other	230,584	246,884	222,955	(23,929)
TOTAL REVENUES	9,123,483	9,265,048	9,295,810	30,762

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
Transfers in				
Revenue sharing reserve	\$ 778,000	\$ 778,000	\$ 778,691	\$ 691
Delinquent tax revolving	<u>665,000</u>	<u>665,000</u>	<u>1,105,000</u>	<u>440,000</u>
Total transfers in	<u>1,443,000</u>	<u>1,443,000</u>	<u>1,883,691</u>	<u>440,691</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 10,566,483</u>	<u>\$ 10,708,048</u>	<u>\$ 11,179,501</u>	<u>\$ 471,453</u>

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY

Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Circuit Court	\$ 209,624	\$ 226,716	\$ 243,634	\$ (16,918)
District Court	707,450	691,450	685,947	5,503
Probate Court	348,773	348,972	341,203	7,769
Juvenile Court	134,504	134,504	131,962	2,542
Board of Commissioners	163,771	182,771	178,293	4,478
County Administrator	165,632	160,632	155,452	5,180
Elections	68,797	42,197	35,385	6,812
Clerk	311,049	333,549	328,914	4,635
Equalization	160,459	159,459	152,851	6,608
Prosecuting Attorney	542,892	573,127	555,813	17,314
Register of Deeds	181,254	176,454	175,993	461
County survey and remonumentation	67,306	68,306	66,494	1,812
Treasurer	215,788	215,623	210,100	5,523
Cooperative extension	127,629	102,125	101,962	163
Information management	154,308	158,833	146,812	12,021
Buildings and grounds	444,693	408,904	408,202	702
Drain commissioner	369,749	361,349	354,659	6,690
Gratiot community airport	35,000	35,000	35,000	-0-
Other	3,600	20,426	20,424	2
Insurance and bonds	144,000	185,500	184,959	541
Total general government	4,556,278	4,585,897	4,514,059	71,838
Public safety				
Sheriff - general	1,310,464	1,338,764	1,316,848	21,916
Jail	1,317,971	1,323,471	1,275,430	48,041
Liquor law enforcement	9,000	11,000	12,472	(1,472)
Planning commission	1,527	1,527	1,673	(146)
Emergency services	59,377	87,065	85,399	1,666
Animal control	135,674	135,474	131,311	4,163
Handicap parking enforcement	2,500	2,500	-	2,500
Total public safety	2,836,513	2,899,801	2,823,133	76,668
Public works				
Department of public works	1,077	1,177	653	524

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Health and welfare				
Mid-Michigan District Health Department	\$ 271,478	\$ 272,136	\$ 272,136	\$ -0-
Gratiot Community Mental Health	200,000	200,000	200,000	-0-
Contagious disease	4,000	4,000	4,522	(522)
Substance abuse appropriation	40,600	41,700	41,073	627
Medical examiner	40,411	60,411	62,357	(1,946)
Veterans counselor	26,683	26,783	25,128	1,655
Veterans burials	8,000	8,000	6,250	1,750
Total health and welfare	591,172	613,030	611,466	1,564
Community and economic development				
East-Central Michigan Planning	5,500	5,500	5,500	-0-
Greater Gratiot Development	85,078	85,038	85,038	-0-
Plat board	538	38	-	38
Renaissance zone	500	500	-	500
Zoning board	1,427	927	6	921
Total community and economic development	93,043	92,003	90,544	1,459
TOTAL EXPENDITURES	8,078,083	8,191,908	8,039,855	152,053

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers out				
Friend of the court	\$ 45,000	\$ 45,000	\$ 51,500	\$ (6,500)
Revenue sharing reserve	1,367,058	1,367,058	1,367,058	-0-
Social welfare	5,500	5,500	5,500	-0-
Child care - juvenile fund	767,596	768,371	770,370	(1,999)
Gratiot county child welfare	60,000	60,000	60,000	-0-
Marine safety	1,000	1,000	1,000	-0-
Soldiers and sailors	2,000	2,000	-	2,000
Building authority - jail	165,473	165,473	154,999	10,474
Courthouse renovation	202,875	202,875	202,875	-0-
Fairground improvement	7,745	7,745	7,745	-0-
2005 G.O. Bonds	8,907	8,907	8,907	-0-
Secondary road patrol	46,530	46,530	46,530	-0-
COPS grant	56,000	56,000	56,000	-0-
Capital improvement	101,000	101,000	101,000	-0-
Drug law enforcement	-	-	4,658	(4,658)
K-9 unit sheriff	600	600	600	-0-
Total transfers out	2,837,284	2,838,059	2,838,742	(683)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 10,915,367	\$ 11,029,967	\$ 10,878,597	\$ 151,370



Gratiot County, Michigan

Revenue Sharing Reserve Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES	\$ -	\$ -	\$ -	\$ -0-
EXPENDITURES	-	-	-	-0-
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	-0-	-0-	-0-
OTHER FINANCING SOURCES (USES)				
Transfers in	1,367,058	1,367,058	1,367,058	-0-
Transfers out	<u>(778,000)</u>	<u>(778,000)</u>	<u>(778,691)</u>	<u>(691)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>589,058</u>	<u>589,058</u>	<u>588,367</u>	<u>(691)</u>
NET CHANGE IN FUND BALANCE	589,058	589,058	588,367	(691)
Fund balance, beginning of year	<u>454,574</u>	<u>454,574</u>	<u>454,574</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 1,043,632</u>	<u>\$ 1,043,632</u>	<u>\$ 1,042,941</u>	<u>\$ (691)</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Gratiot County, Michigan  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
September 30, 2006

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
<b>ASSETS</b>			
Cash and cash equivalents	\$ (59,101)	\$ 59,148	\$ 887
Investments	-	-	-
Investments - restricted	-	-	-
Accounts receivable	-	12,141	-
Due from other governmental units - Federal/State	58,337	-	-
Prepays	982	-	-
<b>TOTAL ASSETS</b>	<b>\$ 218</b>	<b>\$ 71,289</b>	<b>\$ 887</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,691	\$ -	\$ -
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	<b>2,691</b>	<b>-0-</b>	<b>-0-</b>
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for			
Parks	-	-	-
Prepays	982	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	(3,455)	71,289	887
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b>(2,473)</b>	<b>71,289</b>	<b>887</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<b>\$ 218</b>	<b>\$ 71,289</b>	<b>\$ 887</b>

Revenue

Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement	Law Library
\$ 22,911	\$ 73,144	\$ 25,000	\$ 24,941	\$ 8,391	\$ 12,780
-	-	-	-	-	-
-	-	-	-	-	-
-	135	-	-	-	-
-	-	-	-	-	-
35	2,775	-	-	-	-
<u>\$ 22,946</u>	<u>\$ 76,054</u>	<u>\$ 25,000</u>	<u>\$ 24,941</u>	<u>\$ 8,391</u>	<u>\$ 12,780</u>
\$ 1,282	\$ -	\$ -	\$ -	\$ -	\$ -
3,824	-	-	-	-	-
-	-	-	-	-	-
5,106	-0-	-0-	-0-	-0-	-0-
-	-	-	-	-	-
35	2,775	-	-	-	-
17,805	73,279	25,000	24,941	8,391	12,780
-	-	-	-	-	-
-	-	-	-	-	-
<u>17,840</u>	<u>76,054</u>	<u>25,000</u>	<u>24,941</u>	<u>8,391</u>	<u>12,780</u>
<u>\$ 22,946</u>	<u>\$ 76,054</u>	<u>\$ 25,000</u>	<u>\$ 24,941</u>	<u>\$ 8,391</u>	<u>\$ 12,780</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2006

	Special		
	Disaster Fund	Commission on Aging	D.A.R.E. Program
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,375	\$ 82,007	\$ 9,066
Investments	-	30,000	-
Investments - restricted	-	-	-
Accounts receivable	-	26,902	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	382	-
<b>TOTAL ASSETS</b>	<u>\$ 5,375</u>	<u>\$ 139,291</u>	<u>\$ 9,066</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 33,567	\$ -
Accrued payroll	-	10,826	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	-0-	44,393	-0-
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for			
Parks	-	-	-
Prepays	-	382	-
Unreserved			
Undesignated, reported in			
Special revenue funds	5,375	94,516	9,066
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<u>5,375</u>	<u>94,898</u>	<u>9,066</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<u>\$ 5,375</u>	<u>\$ 139,291</u>	<u>\$ 9,066</u>

Revenue

Secondary Road Patrol	Clinton County Child Care	COPS Grant	D.H.S. State Monies	Gratiot County Child Welfare	Soldiers & Sailors
\$ 8,735	\$ (36,599)	\$ 96,883	\$ (43,784)	\$ 23,559	\$ 620
-	-	-	-	-	-
-	-	-	-	-	-
-	85,000	-	-	-	-
-	-	34,892	55,380	-	-
-	-	-	-	-	-
<u>\$ 8,735</u>	<u>\$ 48,401</u>	<u>\$ 131,775</u>	<u>\$ 11,596</u>	<u>\$ 23,559</u>	<u>\$ 620</u>
\$ 521	\$ -	\$ 319	\$ -	\$ -	\$ -
2,614	-	4,172	-	-	-
-	-	-	-	-	-
3,135	-0-	4,491	-0-	-0-	-0-
-	-	-	-	-	-
-	-	-	-	-	-
5,600	48,401	127,284	11,596	23,559	620
-	-	-	-	-	-
-	-	-	-	-	-
<u>5,600</u>	<u>48,401</u>	<u>127,284</u>	<u>11,596</u>	<u>23,559</u>	<u>620</u>
<u>\$ 8,735</u>	<u>\$ 48,401</u>	<u>\$ 131,775</u>	<u>\$ 11,596</u>	<u>\$ 23,559</u>	<u>\$ 620</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2006

	Special		
	Veteran Trust	Veterans Memorial	Animal Control
<b>ASSETS</b>			
Cash and cash equivalents	\$ 307	\$ 10,389	\$ 7,960
Investments	-	-	-
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 307</b>	<b>\$ 10,389</b>	<b>\$ 7,960</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	307	10,389	7,960
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b>307</b>	<b>10,389</b>	<b>7,960</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<b>\$ 307</b>	<b>\$ 10,389</b>	<b>\$ 7,960</b>

Revenue

Marine Safety	Fraker Trust	Michigan Justice Training	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
\$ 2,968	\$ 1,867	\$ 10,432	\$ 5,678	\$ 192	\$ 28,917
-	-	-	-	-	-
-	35,000	-	-	-	-
1,108	716	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 4,076</u>	<u>\$ 37,583</u>	<u>\$ 10,432</u>	<u>\$ 5,678</u>	<u>\$ 192</u>	<u>\$ 28,917</u>
\$ -	\$ -	\$ 36	\$ -	\$ 7	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-0-	-0-	36	-0-	7	-0-
-	37,583	-	-	-	-
-	-	-	-	-	-
4,076	-	10,396	5,678	185	28,917
-	-	-	-	-	-
-	-	-	-	-	-
<u>4,076</u>	<u>37,583</u>	<u>10,396</u>	<u>5,678</u>	<u>185</u>	<u>28,917</u>
<u>\$ 4,076</u>	<u>\$ 37,583</u>	<u>\$ 10,432</u>	<u>\$ 5,678</u>	<u>\$ 192</u>	<u>\$ 28,917</u>



Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2006

		Special	
	Homeless Veterans Fund	Child Care - Juvenile Fund	C.D.B.G.
<b>ASSETS</b>			
Cash and cash equivalents	\$ 890	\$ (23,755)	\$ 72,935
Investments	-	-	-
Investments - restricted	-	-	-
Accounts receivable	-	4,876	-
Due from other governmental units - Federal/State	-	19,227	-
Prepays	-	-	205
<b>TOTAL ASSETS</b>	<u>\$ 890</u>	<u>\$ 348</u>	<u>\$ 73,140</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 22,374	\$ 317
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	-0-	22,374	317
<b>FUND BALANCES (DEFICITS)</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	205
Unreserved			
Undesignated, reported in			
Special revenue funds	890	(22,026)	72,618
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<u>890</u>	<u>(22,026)</u>	<u>72,823</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)</b>	<u>\$ 890</u>	<u>\$ 348</u>	<u>\$ 73,140</u>

Revenue				Capital Projects	Debt Service
Social Welfare	Parks and Recreation	Geographic Information System	Salvage Inspection Fee	Capital Improvement	Mental Health Debt
\$ 57,928	\$ 99,836	\$ 5,597	\$ 5,500	\$ 19,399	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	189	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 57,928</u>	<u>\$ 100,025</u>	<u>\$ 5,597</u>	<u>\$ 5,500</u>	<u>\$ 19,399</u>	<u>\$ -0-</u>
\$ -	\$ 10,034	\$ -	\$ -	\$ 1,550	\$ -
-	718	-	-	-	-
38,025	-	-	-	-	-
38,025	10,752	-0-	-0-	1,550	-0-
-	-	-	-	-	-
-	-	-	-	-	-
19,903	89,273	5,597	5,500	-	-
-	-	-	-	-	-
-	-	-	-	17,849	-
<u>19,903</u>	<u>89,273</u>	<u>5,597</u>	<u>5,500</u>	<u>17,849</u>	<u>-0-</u>
<u>\$ 57,928</u>	<u>\$ 100,025</u>	<u>\$ 5,597</u>	<u>\$ 5,500</u>	<u>\$ 19,399</u>	<u>\$ -0-</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2006

	Debt		
	Building Authority - Jail	Courthouse Renovation	Fairground Improvement
ASSETS			
Cash and cash equivalents	\$ 4,289	\$ 2,628	\$ -
Investments	-	-	-
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
TOTAL ASSETS	<u>\$ 4,289</u>	<u>\$ 2,628</u>	<u>\$ -0-</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES (DEFICITS)			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	-	-	-
Debt service funds	4,289	2,628	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>4,289</u>	<u>2,628</u>	<u>-0-</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 4,289</u>	<u>\$ 2,628</u>	<u>\$ -0-</u>

<u>Service</u>	<u>Total</u>
<u>2005 G.O.</u>	<u>Nonmajor</u>
<u>Bonds</u>	<u>Governmental</u>
<u>Funds</u>	
\$ 1,512	\$ 629,432
-	30,000
-	35,000
-	131,067
-	167,836
-	4,379
<u>\$ 1,512</u>	<u>\$ 997,714</u>

\$ -	\$ 72,698
-	22,154
-	38,025

-0- 132,877

- 37,583  
- 4,379

-	796,597
1,512	8,429
-	17,849

<u>1,512</u>	<u>864,837</u>
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<u>\$ 1,512</u>	<u>\$ 997,714</u>
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Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended September 30, 2006

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	407,359	-	-
Charges for services	52,485	-	-
Fines and forfeits	-	-	-
Interest and rents	-	48,803	-
Other	262	-	-
TOTAL REVENUES	460,106	48,803	-0-
EXPENDITURES			
Current			
General government	548,026	-	-
Public safety	-	-	-
Health and welfare	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	548,026	-0-	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(87,920)	48,803	-0-
OTHER FINANCING SOURCES (USES)			
Transfers in	51,500	-	-
Transfers out	-	(48,045)	-
TOTAL OTHER FINANCING SOURCES (USES)	51,500	(48,045)	-0-
NET CHANGE IN FUND BALANCES	(36,420)	758	-0-
Fund balances, beginning of year	33,947	70,531	887
Fund balances (deficits), end of year	<u>\$ (2,473)</u>	<u>\$ 71,289</u>	<u>\$ 887</u>

Revenue

Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement	Law Library
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
142,906	-	-	-	-	-
-	-	-	-	-	-
-	44,440	-	201	-	-
-	-	-	-	-	4,500
-	1,184	-	393	126	-
115	-	-	4,678	2,970	-
143,021	45,624	-0-	5,272	3,096	4,500
-	26,645	-	-	-	-
121,108	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
121,108	26,645	-0-	-0-	-0-	-0-
21,913	18,979	-0-	5,272	3,096	4,500
-	-	-	4,658	-	-
(4,401)	-	-	-	-	-
(4,401)	-0-	-0-	4,658	-0-	-0-
17,512	18,979	-0-	9,930	3,096	4,500
328	57,075	25,000	15,011	5,295	8,280
\$ 17,840	\$ 76,054	\$ 25,000	\$ 24,941	\$ 8,391	\$ 12,780

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2006

	Special		
	Disaster Fund	Commission on Aging	D.A.R.E. Program
REVENUES			
Taxes	\$ -	\$ 504,017	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	307,970	-
Charges for services	-	40,722	-
Fines and forfeits	-	-	-
Interest and rents	-	7,412	-
Other	-	9,218	3,995
TOTAL REVENUES	-0-	869,339	3,995
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	2,131
Health and welfare	-	915,793	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	915,793	2,131
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	(46,454)	1,864
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
NET CHANGE IN FUND BALANCES	-0-	(46,454)	1,864
Fund balances, beginning of year	5,375	141,352	7,202
Fund balances (deficits), end of year	\$ 5,375	\$ 94,898	\$ 9,066

Revenue					
Secondary Road Patrol	Clinton County Child Care	COPS Grant	D.H.S. State Monies	Gratiot County Child Welfare	Soldiers & Sailors
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
104,300	478,712	144,746	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	231,213	3,266	-
104,300	478,712	144,746	231,213	3,266	-0-
-	-	-	-	-	-
159,291	-	163,441	-	-	-
-	451,904	-	229,501	161,142	1,365
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
159,291	451,904	163,441	229,501	161,142	1,365
(54,991)	26,808	(18,695)	1,712	(157,876)	(1,365)
46,530	-	56,000	-	138,689	-
-	-	-	-	-	-
46,530	-0-	56,000	-0-	138,689	-0-
(8,461)	26,808	37,305	1,712	(19,187)	(1,365)
14,061	21,593	89,979	9,884	42,746	1,985
\$ 5,600	\$ 48,401	\$ 127,284	\$ 11,596	\$ 23,559	\$ 620



Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2006

	Special		
	Veteran Trust	Veterans Memorial	Animal Control
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	5,212	-	-
Charges for services	-	-	1,000
Fines and forfeits	-	-	-
Interest and rents	-	393	-
Other	-	535	-
TOTAL REVENUES	5,212	928	1,000
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	1,315
Health and welfare	5,779	706	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	5,779	706	1,315
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(567)	222	(315)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
NET CHANGE IN FUND BALANCES	(567)	222	(315)
Fund balances, beginning of year	874	10,167	8,275
Fund balances (deficits), end of year	\$ 307	\$ 10,389	\$ 7,960

Revenue

Marine Safety	Fraker Trust	Michigan Justice Training	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
\$ -	\$ -	\$ -	\$ 7,654	\$ -	\$ -
-	-	-	-	-	-
-	-	5,039	-	-	-
-	-	-	-	-	13,140
-	-	-	-	-	-
-	1,342	-	-	-	-
2,114	-	-	-	-	-
2,114	1,342	5,039	7,654	-0-	13,140
-	-	-	-	-	-
1,266	-	2,976	-	969	4,224
-	-	-	-	-	-
-	-	-	7,403	-	-
-	2,791	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,266	2,791	2,976	7,403	969	4,224
848	(1,449)	2,063	251	(969)	8,916
1,000	-	-	-	600	-
-	-	-	-	-	-
1,000	-0-	-0-	-0-	600	-0-
1,848	(1,449)	2,063	251	(369)	8,916
2,228	39,032	8,333	5,427	554	20,001
\$ 4,076	\$ 37,583	\$ 10,396	\$ 5,678	\$ 185	\$ 28,917

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2006

	Special		
	Homeless Veterans Fund	Child Care - Juvenile Fund	C.D.B.G.
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	396,624	62,851
Charges for services	-	39,695	-
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	550	-	-
TOTAL REVENUES	550	436,319	62,851
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Health and welfare	-	1,152,626	-
Community and economic development	-	-	58,814
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	1,152,626	58,814
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	550	(716,307)	4,037
OTHER FINANCING SOURCES (USES)			
Transfers in	-	770,370	-
Transfers out	-	(78,689)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	691,681	-0-
NET CHANGE IN FUND BALANCES	550	(24,626)	4,037
Fund balances, beginning of year	340	2,600	68,786
Fund balances (deficits), end of year	\$ 890	\$ (22,026)	\$ 72,823

Revenue				Capital Projects	Debt Service
Social Welfare	Parks and Recreation	Geographic Information System	Salvage Inspection Fee	Capital Improvement	Mental Health Debt
\$ -	\$ 273,044	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	44,777	-	-	-
-	-	-	5,500	4,305	-
-	-	-	-	-	-
-	3,641	-	-	380	-
11,363	3,340	-	-	-	-
11,363	280,025	44,777	5,500	4,685	-0-
-	-	43,180	-	-	-
-	-	-	-	-	-
22,171	-	-	-	-	-
-	-	-	-	-	-
-	253,614	-	-	-	-
-	-	-	-	105,185	-
-	-	-	-	-	48,045
22,171	253,614	43,180	-0-	105,185	48,045
(10,808)	26,411	1,597	5,500	(100,500)	(48,045)
5,500	-	4,000	-	105,400	48,045
-	(1,000)	-	-	(3,000)	-
5,500	(1,000)	4,000	-0-	102,400	48,045
(5,308)	25,411	5,597	5,500	1,900	-0-
25,211	63,862	-	-	15,949	-
\$ 19,903	\$ 89,273	\$ 5,597	\$ 5,500	\$ 17,849	\$ -0-

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2006

	Debt		
	Building Authority - Jail	Courthouse Renovation	Fairground Improvement
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental - Federal/State	-	-	-
Charges for services	-	-	-
Fines and forfeits	-	-	-
Interest and rents	34	38	-
Other	-	-	-
TOTAL REVENUES	34	38	-0-
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Health and welfare	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	165,638	216,300	7,745
TOTAL EXPENDITURES	165,638	216,300	7,745
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(165,604)	(216,262)	(7,745)
OTHER FINANCING SOURCES (USES)			
Transfers in	155,000	202,875	7,745
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	155,000	202,875	7,745
NET CHANGE IN FUND BALANCES	(10,604)	(13,387)	-0-
Fund balances, beginning of year	14,893	16,015	-
Fund balances (deficits), end of year	\$ 4,289	\$ 2,628	\$ -0-

<u>Service</u>	<u>Total</u>
<u>2005 G.O.</u>	<u>Nonmajor</u>
<u>Bonds</u>	<u>Governmental</u>
<u>Funds</u>	
\$ -	\$ 784,715
-	142,906
-	1,957,590
-	201,488
-	4,500
4	63,750
<u>18,806</u>	<u>292,425</u>
18,810	3,447,374
-	617,851
-	456,721
-	2,940,987
-	66,217
-	256,405
-	105,185
<u>27,738</u>	<u>465,466</u>
<u>27,738</u>	<u>4,908,832</u>
(8,928)	(1,461,458)
10,440	1,608,352
<u>-</u>	<u>(135,135)</u>
<u>10,440</u>	<u>1,473,217</u>
1,512	11,759
<u>-</u>	<u>853,078</u>
<u>\$ 1,512</u>	<u>\$ 864,837</u>

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2006

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 30,451	\$ 38,520	\$ 837	\$ 16,531	\$ 86,339
Investments	-	-	16,000	75,000	91,000
Accounts receivable	-	-	56	1,496	1,552
<b>TOTAL ASSETS</b>	<b>30,451</b>	<b>38,520</b>	<b>16,893</b>	<b>93,027</b>	<b>178,891</b>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	934	2,972	-	-	3,906
Accrued payroll	1,568	-	-	-	1,568
<b>TOTAL LIABILITIES</b>	<b>2,502</b>	<b>2,972</b>	<b>-0-</b>	<b>-0-</b>	<b>5,474</b>
<b>NET ASSETS</b>					
Unrestricted	<u>\$ 27,949</u>	<u>\$ 35,548</u>	<u>\$ 16,893</u>	<u>\$ 93,027</u>	<u>\$ 173,417</u>

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2006

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
OPERATING REVENUES					
Charges for services	\$ 59,764	\$ 37,608	\$ -	\$ 48,694	\$ 146,066
Other revenue	-	21,654	-	8,798	30,452
TOTAL OPERATING REVENUES	59,764	59,262	-0-	57,492	176,518
OPERATING EXPENSES					
Salaries	26,469	-	-	-	26,469
Fringe benefits	12,085	-	-	-	12,085
Contractual services	-	-	1,521	-	1,521
Supplies	705	17,072	-	-	17,777
Communication	206	-	-	-	206
Miscellaneous	3,410	34,828	-	11,800	50,038
TOTAL OPERATING EXPENSES	42,875	51,900	1,521	11,800	108,096
OPERATING INCOME (LOSS)	16,889	7,362	(1,521)	45,692	68,422
NONOPERATING REVENUES					
Interest revenue	321	-	3,985	4,701	9,007
CHANGE IN NET ASSETS	17,210	7,362	2,464	50,393	77,429
Net assets, beginning of year	10,739	28,186	14,429	42,634	95,988
Net assets, end of year	\$ 27,949	\$ 35,548	\$ 16,893	\$ 93,027	\$ 173,417



Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from customers	\$ 59,764	\$ 59,509	\$ 4,836	\$ 57,095	\$ 181,204
Cash paid to suppliers	(3,456)	(53,437)	(1,521)	(12,231)	(70,645)
Cash paid to employees	(38,509)	-	-	-	(38,509)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>17,799</b>	<b>6,072</b>	<b>3,315</b>	<b>44,864</b>	<b>72,050</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	-	-	(46,000)	(196,000)	(242,000)
Maturity of investments	-	-	30,000	121,000	151,000
Interest revenue	321	-	3,985	4,701	9,007
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>321</b>	<b>-0-</b>	<b>(12,015)</b>	<b>(70,299)</b>	<b>(81,993)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>18,120</b>	<b>6,072</b>	<b>(8,700)</b>	<b>(25,435)</b>	<b>(9,943)</b>
Cash and cash equivalents, beginning of year	12,331	32,448	9,537	41,966	96,282
Cash and cash equivalents, end of year	<u>\$ 30,451</u>	<u>\$ 38,520</u>	<u>\$ 837</u>	<u>\$ 16,531</u>	<u>\$ 86,339</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 16,889	\$ 7,362	\$ (1,521)	\$ 45,692	\$ 68,422
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
(Increase) decrease in receivables	-	247	(56)	(397)	(206)
Decrease in due from other funds	-	-	4,892	-	4,892
Increase (decrease) in accounts payable	865	(1,537)	-	(431)	(1,103)
Increase in accrued liabilities	45	-	-	-	45
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 17,799</u></b>	<b><u>\$ 6,072</u></b>	<b><u>\$ 3,315</u></b>	<b><u>\$ 44,864</u></b>	<b><u>\$ 72,050</u></b>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2006

	Fringe Benefits	Tile Fund	Flexible Spending	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 120,879	\$ 10,582	\$ 6,482	\$ 137,943
Inventories	-	13,363	-	13,363
Accounts receivable	16,208	-	-	16,208
Prepays	206,341	-	-	206,341
<b>TOTAL ASSETS</b>	<b>343,428</b>	<b>23,945</b>	<b>6,482</b>	<b>373,855</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	21,841	3,061	-	24,902
Accrued liabilities	87,916	-	-	87,916
Due to other funds	-	-	500	500
<b>TOTAL LIABILITIES</b>	<b>109,757</b>	<b>3,061</b>	<b>500</b>	<b>113,318</b>
<b>NET ASSETS</b>				
Unrestricted	<u>\$ 233,671</u>	<u>\$ 20,884</u>	<u>\$ 5,982</u>	<u>\$ 260,537</u>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2006

	<u>Fringe Benefits</u>	<u>Tile Fund</u>	<u>Flexible Spending</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 2,216,846	\$ -	\$ -	\$ 2,216,846
Intergovernmental - local	-	45,768	-	45,768
Other revenue	-	2,392	31,710	34,102
TOTAL OPERATING REVENUES	2,216,846	48,160	31,710	2,296,716
OPERATING EXPENSES				
Fringe benefits	2,094,052	-	-	2,094,052
Miscellaneous	-	53,621	26,804	80,425
TOTAL OPERATING EXPENSES	2,094,052	53,621	26,804	2,174,477
OPERATING INCOME (LOSS)	122,794	(5,461)	4,906	122,239
Net assets, beginning of year	110,877	26,345	1,076	138,298
Net assets, end of year	<u>\$ 233,671</u>	<u>\$ 20,884</u>	<u>\$ 5,982</u>	<u>\$ 260,537</u>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

	Fringe Benefits	Tile Fund	Flexible Spending	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from users	\$ 2,202,958	\$ 48,160	\$ 31,710	\$ 2,282,828
Cash paid to suppliers	-	(50,560)	(26,804)	(77,364)
Cash paid for employee benefits	(2,168,211)	-	-	(2,168,211)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>34,747</b>	<b>(2,400)</b>	<b>4,906</b>	<b>37,253</b>
Cash and cash equivalents, beginning of year	86,132	12,982	1,576	100,690
Cash and cash equivalents, end of year	<u>\$ 120,879</u>	<u>\$ 10,582</u>	<u>\$ 6,482</u>	<u>\$ 137,943</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 122,794	\$ (5,461)	\$ 4,906	\$ 122,239
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
(Increase) in receivables	(13,888)	-	-	(13,888)
(Increase) in prepaids	(65,702)	-	-	(65,702)
Increase (decrease) in accounts payable	(31,824)	3,061	-	(28,763)
Increase in accrued liabilities	25,467	-	-	25,467
(Decrease) in due to other funds	(2,100)	-	-	(2,100)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><b>\$ 34,747</b></u>	<u><b>\$ (2,400)</b></u>	<u><b>\$ 4,906</b></u>	<u><b>\$ 37,253</b></u>

Gratiot County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

September 30, 2006

	Agency Funds		
	Trust and Agency	Library Fund (Penal Fines)	Total
ASSETS			
Cash and cash equivalents	\$ 1,832,909	\$ 136,309	\$ 1,969,218
LIABILITIES			
Undistributed collections payable	\$ -	\$ 136,309	\$ 136,309
Defendant bonds payable	42,454	-	42,454
Due to other governmental units	1,772,260	-	1,772,260
Due to individuals and agencies	18,195	-	18,195
TOTAL LIABILITIES	\$ 1,832,909	\$ 136,309	\$ 1,969,218

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

September 30, 2006

	Debt Service	Capital	
	Drain Debt	Regular Drain	Revolving Drain
ASSETS			
Cash and cash equivalents	\$ -	\$ 409,763	\$ 62,614
Special assessments receivable	-	751,872	-
Due from other funds	-	-	290,976
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 1,161,635</u>	<u>\$ 353,590</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 2,095	\$ 8,353
Deferred revenue	-	751,872	-
Advances from other governmental units	-	-	292,528
Due to other funds	-	300,640	-
TOTAL LIABILITIES	-0-	1,054,607	300,881
FUND BALANCES			
Fund balances			
Unreserved			
Designated for capital expenditures	-	107,028	52,709
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 1,161,635</u>	<u>\$ 353,590</u>

<u>Projects</u>	
<u>Revolving</u>	
<u>Drain</u>	
<u>Maintenance</u>	<u>Total</u>
\$ 10,122	\$ 482,499
-	751,872
9,664	300,640
<u>\$ 19,786</u>	<u>\$ 1,535,011</u>

\$ 290	\$ 10,738
-	751,872
-	292,528
-	300,640
290	1,355,778

<u>19,496</u>	<u>179,233</u>
<u>\$ 19,786</u>	<u>\$ 1,535,011</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - DRAINAGE DISTRICTS

September 30, 2006

**Total fund balance - governmental funds** \$ 179,233

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 6,037,107
Accumulated depreciation is	<u>(1,133,867)</u>

Capital assets, net	4,903,240
---------------------	-----------

Long-term receivables are not available to pay for current period expenditures  
and are therefore deferred in the funds. These consist of:

Deferred revenue	751,872
------------------	---------

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.  
Long-term liabilities at year-end consist of:

Bonds and loans payable	1,325,921
Accrued interest payable	<u>20,656</u>
	<u>(1,346,577)</u>

<b>Net assets of governmental activities</b>	<u><u>\$ 4,487,768</u></u>
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Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - DRAINAGE DISTRICTS

Year Ended September 30, 2006

	Debt Service	Capital	
	Drain Debt Retirement	Regular Drain	Revolving Drain
REVENUES			
Charges for services	\$ -	\$ 13,000	\$ -
Intergovernmental - local	-	215,079	16,075
Interest	-	15,331	890
Other			
Special assessments	-	614,838	-
Miscellaneous	-	6,562	-
TOTAL REVENUES	-0-	864,810	16,965
EXPENDITURES			
Public works	-	375,180	481,989
Debt service			
Principal	378,974	-	-
Interest and fiscal charges	41,062	-	-
TOTAL EXPENDITURES	420,036	375,180	481,989
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(420,036)	489,630	(465,024)
OTHER FINANCING SOURCES (USES)			
Transfer in	420,036	21,270	478,176
Transfer out	-	(909,398)	(37,304)
Long-term note proceeds	-	424,300	-
TOTAL OTHER FINANCING SOURCES (USES)	420,036	(463,828)	440,872
NET CHANGE IN FUND BALANCES	-0-	25,802	(24,152)
Fund balances, beginning of year	-	81,226	76,861
Fund balances, end of year	\$ -0-	\$ 107,028	\$ 52,709

<u>Projects</u>	
<u>Revolving</u>	
<u>Drain</u>	
<u>Maintenance</u>	<u>Total</u>
\$ 650	\$ 13,650
-	231,154
1,998	18,219
-	614,838
-	6,562
2,648	884,423
27,712	884,881
-	378,974
-	41,062
27,712	1,304,917
(25,064)	(420,494)
27,438	946,920
(218)	(946,920)
-	424,300
27,220	424,300
2,156	3,806
17,340	175,427
\$ 19,496	\$ 179,233

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - DRAINAGE DISTRICTS

Year Ended September 30, 2006

**Net change in fund balances - total governmental funds** \$ 3,806

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 432,520	
Depreciation expense	<u>(160,706)</u>	
Excess of capital outlay over depreciation expense		271,814

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Increase in deferred revenue	90,292
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt proceeds	(424,300)	
Bond principal retirement	<u>378,974</u>	
		(45,326)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	<u>(5,040)</u>
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**Change in net assets of governmental activities** \$ 315,546

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - BOARD OF PUBLIC WORKS

September 30, 2006

	Debt Service			Total
	North Star Sewer	Pompeii Sewer	Perrinton Water	
ASSETS				
Cash and cash equivalents	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 305</u>	<u>\$ 305</u>
FUND BALANCES				
Fund balances				
Unreserved				
Undesignated, reported in Debt Service funds	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 305</u>	<u>\$ 305</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - BOARD OF PUBLIC WORKS

September 30, 2006

<b>Total fund balance - governmental funds</b>	<b>\$</b>	<b>305</b>
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Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures and therefore are not reported as assets in the funds.  
Long-term receivables at year-end consist of:

Lease receivable		454,826
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.  
Long-term liabilities at year-end consist of:

Accrued interest payable	\$	9,826	
Direct county obligations		<u>445,000</u>	
			<u>(454,826)</u>

<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>305</u></b>
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Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2006

	Debt Service			
	North Star Sewer	Pompeii Sewer	Perrinton Water	Total
REVENUES				
Intergovernmental - local	\$ 301,640	\$ 26,145	\$ 9,804	\$ 337,589
Interest	-	-	68	68
TOTAL REVENUES	301,640	26,145	9,872	337,657
EXPENDITURES				
Debt service				
Principal	285,000	10,000	25,000	320,000
Interest and fiscal charges	16,640	16,145	9,607	42,392
TOTAL EXPENDITURES	301,640	26,145	34,607	362,392
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	-0-	(24,735)	(24,735)
Fund balances, beginning of year	-	-	25,040	25,040
Fund balances, end of year	\$ -0-	\$ -0-	\$ 305	\$ 305

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2006

**Net change in fund balances - total governmental funds** \$ (24,735)

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Lease proceeds	(310,174)	
Bond principal retirement	<u>320,000</u>	9,826

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>7,151</u>
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**Change in net assets of governmental activities** \$ (7,758)

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - CENTRAL DISPATCH AUTHORITY

September 30, 2006

	Special Revenue		
	E-911	Phase II Upgrade	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 105,446	\$ 334,942	\$ 440,388
Accounts receivable	48,309	32,461	80,770
Prepays	86,851	-	86,851
TOTAL ASSETS	<u>\$ 240,606</u>	<u>\$ 367,403</u>	<u>\$ 608,009</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 3,681	\$ -	\$ 3,681
Accrued liabilities	12,781	-	12,781
TOTAL LIABILITIES	16,462	-0-	16,462
FUND BALANCES			
Unreserved			
Undesignated	224,144	367,403	591,547
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 240,606</u>	<u>\$ 367,403</u>	<u>\$ 608,009</u>



Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - CENTRAL DISPATCH AUTHORITY

September 30, 2006

**Total fund balance - governmental fund** \$ 591,547

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 126,365
Accumulated depreciation is	<u>(126,365)</u>

Capital assets, net	<u>-0-</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 591,547</u></u>
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Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2006

	Special Revenue		
	E-911	Phase II Upgrade	Total
REVENUES			
Charges for services - user charges	\$ 585,146	\$ 128,164	\$ 713,310
Interest	7,300	9,231	16,531
Intergovernmental - Federal/State	541	-	541
TOTAL REVENUES	592,987	137,395	730,382
EXPENDITURES			
Current			
Public safety	658,631	98,513	757,144
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(65,644)	38,882	(26,762)
Fund balances, beginning of year	289,788	328,521	618,309
Fund balances, end of year	\$ 224,144	\$ 367,403	\$ 591,547

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended September 30, 2006.

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
Gratiot County  
Ithaca, Michigan

We have audited the basic financial statements of Gratiot County as of and for the year ended September 30, 2006, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to administration and the Board of Commissioners of Gratiot County in a separate letter dated December 8, 2006.

This report is intended solely for the information and use of the administration and Board of Commissioners of Gratiot County, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 8, 2006

**Gratiot County, Michigan**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**September 30, 2006**

Gratiot County, Michigan

TABLE OF CONTENTS

September 30, 2006

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-5
Notes to Schedule of Expenditures of Federal Awards	6-7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	8
SCHEDULE OF FINDINGS	9
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	10

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

Compliance

We have audited the compliance of Gratiot County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended September 30, 2006. Gratiot County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal program is the responsibility of Gratiot County's management. Our responsibility is to express an opinion on Gratiot County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Gratiot County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gratiot County's compliance with those requirements.

In our opinion, Gratiot County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending September 30, 2006.

Internal Control Over Compliance

The management of Gratiot County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Gratiot County's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Gratiot County as of and for the year ended September 30, 2006, and have issued our report thereon dated December 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Gratiot County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 8, 2006

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Passed through Michigan State Housing Development Authority Community Development Block Grant (CDBG) Program State's Program	14.228					
03/04 (Housing)		MSC-2003-0782-HOA	\$ 200,000	\$ 192,341	\$ 2,794	\$ 2,794
06/07 (Housing)		MSC-2005-0782-HOA	<u>200,000</u>	<u>-</u>	<u>47,341</u>	<u>47,341</u>
			400,000	192,341	50,135	50,135
U.S. DEPARTMENT OF JUSTICE Passed through Michigan Family Independence Agency Juvenile Accountability Incentive Block Grant	16.523					
2005 Basic Grant		N/A	15,000	13,750	1,250	1,250
2006 Basic Grant		N/A	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
			30,000	13,750	16,250	16,250
(Direct Program) Office of Community Oriented Policing Services COPS Universal Hiring 03-06	16.710	2003UMWX0057	442,541	297,795	144,746	144,746
U.S. DEPARTMENT OF TRANSPORTATION Passed through Michigan Department of State Police Emergency Management Division	20.703					
04/05 HMEP		N/A	6,348	-	6,348	6,348



Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed through Michigan						
Department of State Police						
State Homeland Security grants	97.004					
2004 SHSGP Interoperable						
Communications Equipment Grant		N/A	\$ 22,000	\$ 22,000	\$ 22,000	\$ 22,000
2003 Part II Training Grant		N/A	<u>39,129</u>	<u>458</u>	<u>1,016</u>	<u>1,016</u>
			61,129	22,458	23,016	23,016
Emergency Management						
Performance Grant	97.042					
FY 2006 EMPG		N/A	11,827	-	11,317	11,317
State Homeland Security Grants						
FY 2005 EMPG	97.067	N/A	16,118	14,113	78	78
2005 LETPP Equipment Grant		N/A	5,028	-	5,028	5,028
2005 HSGP CBRNE Equipment Grant		N/A	11,130	-	11,123	11,123
2005 HSGP CBRNE Training Grant		N/A	<u>2,406</u>	<u>-</u>	<u>2,406</u>	<u>2,406</u>
			34,682	14,113	18,635	18,635
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through State Department of						
Office on Services to the Aging and						
Region 7 Area Agency on Aging Title IIIB						
Special Programs for the Aging <sup>(d)</sup>	93.044					
(Chore, Personal Care, Case						
Coordination and Support, Senior						
Center, Repair, Personal Care)						
FY05/06		N/A	38,042	-	38,042	38,042
Title IIIE National Family						
Caregiver Support	93.052					
(Caregiver Training)						
FY05/06		N/A	18,682	-	18,682	18,682

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED						
Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging - continued						
Medical Assistance Program <sup>(d)</sup>						
Point of Service Waiver	93.778	N/A	\$ 20,920	\$ -	\$ 20,920	\$ 20,920
MMAP						
FY05/06	93.779	N/A	3,732	-	3,732	3,732
Passed through Michigan Family Independence Agency						
Promoting Safe & Stable Families						
05/06 Grant	93.556	SFSC-04-29004-3	22,201	-	22,201	22,201
Child Support Enforcement <sup>(a)(c)</sup>						
(Title IV-D)	93.563					
Cooperative Reimbursement -						
Friend of the Court						
04/05		CS/FOC-05-29001	428,066	338,327	739	739
05/06		CS/FOC-06-29001	427,268	-	332,335	332,335
Cooperative Reimbursement -						
Prosecuting Attorney						
04/05		CS/PA-05-29002	57,180	43,917	498	498
05/06		CS/PA-06-29002	61,012	-	47,477	47,477
Incentive Payments <sup>(b)</sup>						
2005-06 Regular		N/A	66,122	-	66,122	66,122
			<u>1,039,648</u>	<u>382,244</u>	<u>447,171</u>	<u>447,171</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 2,129,752</u>	<u>\$ 922,701</u>	<u>\$ 821,195</u>	<u>\$ 821,195</u>

Gratiot County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2006

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Gratiot County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note C.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a)-(d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Department of Human Services (DHS). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants. The entire amount paid by DHS for the reimbursed expenditures is considered Federal.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as "major program".
- (d) The amounts reported on the Schedule of Expenditures of Federal Awards passed through State Department of Office of Services to the Aging represent the Federal portion at 100% of the respective amounts except for the following percentages of the applicable grant expenditures:

Personal Care IIIB	4.90 %
Homemaking IIIB	16.20
Waiver	56.18

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following reconciles the Federal revenues reported in the September 30, 2006 basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
CRP - Prosecuting Attorney	\$ 48,226	\$( 251 )	\$ -	\$ 47,975
Communications equipment grant	22,000	-	-	22,000
Emergency management	36,822	-	-	36,822
Other programs	<u>806,266</u>	<u>( 806,266 )</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	913,314	( 806,517 )	-0-	106,797

Gratiot County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

September 30, 2006

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
<b>SPECIAL REVENUE FUNDS</b>				
Friend of the Court	\$ 407,359	\$( 8,163 )	\$ -	\$ 399,196
Commission on Aging	307,970	( 226,594 )	-	81,376
CDBG	62,851	-	( 12,716 ) <sup>(1)</sup>	50,135
Child Care Juvenile Fund	396,624	( 358,173 )	-	38,451
COPS Grant	144,746	-	-	144,746
Other Programs	<u>638,040</u>	<u>( 638,040 )</u>	<u>-</u>	<u>-0-</u>
<b>TOTAL SPECIAL REVENUE FUNDS</b>	<u>1,957,590</u>	<u>( 1,230,970 )</u>	<u>( 12,716 )</u>	<u>713,904</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>2,870,904</u>	<u>( 2,037,487 )</u>	<u>( 12,716 )</u>	<u>820,701</u>
<b>COMPONENT UNITS</b>				
E-911	<u>541</u>	<u>( 47 )</u>	<u>-</u>	<u>494</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 2,871,445</u>	<u>\$( 2,037,534 )</u>	<u>\$( 12,716 )</u>	<u>\$ 821,195</u>

Following is a summary of the adjustments in the above schedule:

- <sup>(1)</sup> The adjustment related to the CDBG Fund represents amounts that had been contractually committed to projects as of the end of the prior year, but not yet expended, \$12,716. The funding source considers these funds expended in the year in which they were committed which does not meet the expenditure recognition criteria of generally accepted accounting principles (GAAP). Therefore, the amount of the adjustment represents the amounts related to the difference between the funding source definition of expended and the recognition criteria of generally accepted accounting principles (GAAP). The \$12,716 was recognized in the Schedule of Expenditures of Federal Awards as of September 30, 2005, but was recognized in the audited financial statements as revenue as of September 30, 2006, in accordance with GAAP.

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the financial statements of Gratiot County, Michigan as of and for the year ended September 30, 2006, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to administration and the Board of Commissioners of Gratiot County in a separate letter dated December 8, 2006.

This report is intended solely for the information of management, the Board of Commissioners and management of Gratiot County, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 8, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Gratiot County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2006

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.563	Child Support Enforcement (Title IV-D)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

Gratiot County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2006

There were no findings disclosed in the prior year.

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
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3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Gratiot County, Michigan for the year ended September 30, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be monitored and amended when necessary.

As noted in the financial statements, some of the activities of the County exceeded the amounts appropriated. The variances noted were in the General Fund and certain Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the County adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the County monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

2. The County should review the status of individual fund balances (deficits) near year-end.

As noted in the financial statements, the County had two (2) funds that ended the year in a deficit financial position. As a result, the County will be required to submit a deficit reduction plan to the State of Michigan.

We suggest the County review the status of individual funds near year-end and make appropriate adjustments when possible to eliminate deficits.

3. The County should initiate the planning process for GASB Statement No. 45.

The Governmental Accounting Standards Board has recently issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rule is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.



3. The County should initiate the planning process for GASB Statement No. 45 - continued.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

Planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we suggest that the County begin the process of obtaining an actuarial valuation at least one year prior to the effective date. This statement will be effective for Gratiot County for the fiscal year beginning October 1, 2007.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated December 8, 2006.

This report is intended solely for the use of management and the Board of Commissioners of Gratiot County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 8, 2006